

REPORTS OF THE MRTP COMMISSION AND ORDERS THEREUPON OF THE CENTRAL GOVERNMENT UNDER SECTIONS 21, 22 & 23 OF THE MRTP ACT 1969 IN 5 VOLUMES

VOLUME II SECTION 21

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FOREWORD

The Monopolies and Restrictive Trade Practices Act, 1969 is intended to ensure that the operation of the economic system does not result in the concentration of economic power to the common deteriment. The Act has its genesis in the Directive Principles of State Policy embodied in the Constitution. Article 39(b) and (c) of the Constitution lays down that the State shall direct its policy towards ensuring that the ownership and control of the material resources of the community are so distributed as best to subserve the common good and that the operation of the economic system does not result in concentration of wealth and means of production to the common detriment. The fundamental tenet of the State policy is, therefore, to ensure that while promoting economic and industrial growth, progressive reduction in the concentration of wealth and economic power is also brought about side by side. The provisions for regulating the concentration of economic power are contained in Chapter III of the Monopolies and Restrictive Trade Practices Act. not aimed at the prevention of growth of undertakings as such but is designed to regulate their expansion only into specified fields for ensuring that such expansions do not adversely affect the small and medium scale undertakings and they will not be prejudicial to the public interest.

The Central Government has the discretion to make references to the Monopolies and Restrictive Trade Practices Commission in respect of expansion of undertakings (Section 21), establishment of new undertakings (Section 22), Merger, amalgamation and take-over (Section 23) and division of undertakings (Section 27). References under the aforesaid provisions of the Act are made to the Commission if the Central Government is of the opinion that no order under these provisions can be made by it without further enquiry. It is not mandatory for the Central Government to refer all applications under Sections 21, 22 and 23 of the act to the Commission for further enquiry. However, wherever it is felt that the facts and the relevant information necessary to decide on a proposal is not available or some important issues like dominance angle, demand projections, availability of raw-materials, economic viability, financial resources, technology angle, etc. merit further examination, the Central Government may refer the proposal to the Commission for an indepth enquiry. After enquiry and such hearing as it thinks fit, the Commission submits its report on the proposal to the Central Government. role of the Commission in this regard is of advisory nature and it is for the Central Government to take a final decision on the proposal in the light of the recommendations of the Commission.

Since the inception of the Monopolies and Restrictive Trade Practices Act, the Commission has submitted a number of reports on the various proposals referred to it for enquiry by the Central Government from time to time. These reports contain very valuable and useful information and also provide a deep insight into the various fields of industry in respect of which the Commission got an opportunity to enquire into. Various Departments of the Government as well as the research scholars, and academecians would find the information contained in these reports to be of great use to them. Although the reports of the Commission together with the orders of the Central Government thereon have been laid before the Parliament from time to time, in pursuance of the provisions of Section 62 of the Act, it had not been possible to have these reports published so far for the benefit of the general

public. The present publication is the first endeavour in this direction, and it is hoped that this publication would meet the long felt need of the various quarters by making the reports of the Commission available to them in the form of a single publication.

I would like to express my sincere appreciation of the hard work done by Shri B.B.L. Mittal, Senior Librarian, Department of Company Affairs in editing and compiling this voluminous publication which runs into five volumes. But for his whole-hearted and untiring efforts, this publication may not have been possible. It is heartening that Shri Mittal has also undertaken the work of editing and compiling the orders of the Central Government in respect of various proposals decided by the Central Government under Sections 21, 22 and 23 of the Monopolies and Restrictive Trade Practices Act, in respect of which reference to the Commission was not considered necessary. It is hoped that this work will also be published soon.

K. S. BHATNAGAR

Secretary to the Government of India Department of Company Affairs

New Delhi July 8, 1981



REPORTS UNDER SECTION 21 OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969

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REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF LUCAS-TVS LIMITED, MADRAS.



2-8 M of LJ&CA/ND/79

CHAPTER I

Report under Section 21(3)(b) of the monopolies and Restrictive Trade Practices Act, 1969—M/s. Lucas-TVS Limited, Padi, Madras

INTRODUCTION

- 1. M/s. Lucas-TVS Limited, hereinafter referred to as 'LTVS', give a notice to the Government of India, Department of Company Affairs, on 31st December, 1970, under sub-section (1) of section 21 of the Monopolies and Restrictive Trade Practices Act, 1969, of its intention to make substantial expansion of its activities by increasing its production in five items, namely, Starters, Generators, Regulators, Flashes and Headlamps, and sought the Central Government's approval under sub-section (2) of section 21 of the said Act for the proposed expansion. This application of 'LTVS' was referred by the Central Government (Department of Company Affairs) to the Monopolies and Restrictive Trade Practices Commission for enquiry and report vide Department of Company Affairs letter No. 1/4/71-M(I)dated the 29th July, 1971, which was received in the Commissions office on 30th July, 1971.
- 1.2 On receipt of this reference, the Commission issued a Notification containing important aspects of the expansion scheme of the 'LTVS' and inviting comments and objections, if any. This was published in various newspapers on 11th August, 1971. The Chairman and two Members of the Commission also paid a visit to the 'LTVS' factory at Madras in the month of September, 1971.
- 1.3 While the Commission's investigations were in progress, 'LTVS' wrote to the Commission on 11th October, 1971, stating that it proposed to submit an application to the Ministry of Industrial Development to regularise its capacity on two shift basis, the licence issued to it in the year 1960 being on the basis of a single shift. A request was made that, pending the Ministry's decision on this application, the Commission may defer the consideration of the reference before it. A copy of this letter is enclosed as Annexure 'A' to this Report.
- 1.4 On the basis of this request of the 'LTVS', the Commission passed an order on 20th October, 1971, and the enquiry was adjourned sine die.
- 1.5 Subsequently, in the month of April, 1972, another letter was received from 'LTVS which stated:—
 - "Since we wrote to you last in October, 1971, we have been having informal discussions with the Ministry of Industrial Development regarding the procedure for fuller utilisation of installed capacity. On 21st January, 1972, the Ministry by a Press Note, announced certain relaxation permitting additional production by fuller utilisation of installed capacity. However, the guidelines for submitting applications under the Task Force Scheme were published only on 19th February, 1972, wherein it was announced that the last date for taking advantage of this Scheme would be 30th June, 1972. We are in consultation with our collaborators for assessing advantages of making an application under the Task Force Scheme or pursuing the expansion application under the I (D&R) Act. We, therefore, request that time may kindly be given to us for finalising our reply to you till the end of June, 1972".
- 1.6 Further requests for postponement were made vide the Company's letters dated 6th July 1972, and 5th September, 1972, on the ground that its application was under consideration by the Task Force. In the letter dated 5th September, 1972, postponement upto 31st October, 1972 was requested.
- 1.7 The Commission in the meantime got in touch with the Ministry of Industrial Development and received on 24th October, 1972, a copy of the Minutes of the 16th Meeting of the Task Force held on 26th August, 1972. Thereafter, a letter was addressed to the Company on 27th October, 1972, as below:—
 - "The Commission understands that the Task Force in the Ministry of Industrial Development, New Delhi, has already taken a decision on your application for recognition of enhanced capacity for the manufacture of automobile components and that the total capacity recognized for five items for which application is pending before this Commission by them will be much

1.8 On 16th November, 1972, a letter was received from 'LTVS' requesting for time till the end of March, 1973, on the ground that the Company wanted to have further consulations with its foreign collaborators. This request was not agreed to and 'LTVS' was asked to intimate to the Commission immediately whether it would like to pursue its enquiry before the Commission. On 30th November, 1972, the Commission was informed that the enquiry may be contined. Thereafter the proceedings were restored on 1st December, 1972, and it was decided that the period of 90 days for submitting the report will be counted from this date. This period expired on 30th April, 1973. However, for various reasons including a request from 'LTVS' for a longer notice regarding the date of public hearing to enable it to communicate with its foreign collaborators and give them sufficient time to decide whether they would participate in the public hearing, the date for submission of the report was extended upto 31st May, 1973 (vide the Commission's order No. 1/17/Eng./71 dated the 17th April, 1973).

The Applicant Company

1.9 The Industrial Licensing Policy Inquiry Committee in its report (Volume II) has listed 'LTVS' as a company belonging to the Large Industrial House of 'T.V. Sundaram Iyengar'. In the list made out by this Committee, 21 companies have been shown intier one and one company in tier two as belonging to this House. The applicant Company has, however, admitted interconnections only with the following companies:—

	BI	

	Name of the Company				eg e		Value of Assets	As on
1.	T.V. Sundaram Iyenger & Sons P	. Lu	d.	1 77	L		8,98,38,741	31-3-72
2.	Sundaram Industries Pvt. Limited	- 1			M.		4,88,38,687	31-3-72
3.	Southern Roadways Pvt. Limited	- 1			3/		3,77,70,749	31-3-72
4.	India Motor Parts & Accessories I	td.	TENN	ta av	5		68,74,915	31-3-72
5.	Sundaram Textiles Limited		44:41	19 70	151		97,34,977	31-3-72
6.	Sundaram Fasteners Limited		•				2,70,72,515	31-3-72
7.	Lucas TVS Limited					•	9,59,77,023	31-3-72
8.	Lucas Indian Service Limited.		•		•	•	2,06,66,045	31-3-72
9.	Lucas Electrical Tractors Services	Ltd					9,77,330	31-3-72
10.	Sundaram Clayton Limited					•	4,25,30,834	31-7-72
11.	Wheels India Limited				•	•	6,06,66,889	31-12-71
12.	Brakes India Limited					•	5,35,35,463	31-12-71
13.	Torsion Products Limited .			•		•	65,87,972	30-9-72
14.	Singer—TVS Limited		•	•	•	٠	19,30,964	31-3-72
	Total			•		•	5030.03 lakhs	

Note.— The Company, in the above list, has not included the name of M/S Sundaram Finance Limited, 37, Mount Road, Madras, on the ground that this Company has applied to the Ministry of Company Affairs for cancellation of its registration under Section 26(3) of the Monopolies and Restrictive Trade Practices Act, 1969.

^{1.10} It needs to be noted that originally it was Messrs. Joseph Lucas (P) Limited U.K. (and not 'LTVS') which had applied for an industrial licence for the production of various automobile electrical accessories in India. It appears that, though the products of the British company were being imported into India for many years, and the Government had made informal suggestions

to it to start a manufacturing programme in India, initially it was not very keen on doing so. In the meanwhile on 3rd February, 1959, M/s. Best and Company of Madras was given a licence for the production of electrical accessories in collaboration with M/s. Simms of U.K. It was in May 1960 that a proposal was made by M/s. Joseph Lucas regarding production of these items in India. While deciding to approve this proposal of M/s. Lucas, one consideration that weighed with Government was that it would be useful to create competition so as to ensure efficiency. At the same time, there was an objection that the normal practice was to give a new producer like Best and Company some time to consolidate its production before a competitor was permitted to enter the industry. Another intending producer M/s. Motor Industry Company Ltd., Bangalore, (in collaboration with Bosch of Germany)—had, therefore, been asked to wait till Best and Company had consolidated its production. But the Govt. gave special weightage to the fact that M/s. Joseph Lucas had a reputation for producing high quality equipment and thus would be in a better position to satisfy the requirements of vehicle manufacturers than M/s. Best and Company. It was also expected that the establishment of a Lucas unit would in course of time help the development of exports of these items on a large scale. On these grounds, the proposal was approved on 24th July, 1960. It was also decided that in the Indian company to be formed for implementing this proposal, majority equity may be permitted to M/s. Joseph Lucas as M/s. Joseph Lucas considered this as necessary to ensure quality control. It had been suggested then that foreign equity could be reduced later at the time of expansion. It may thus be seen that the proposal was approved on very special considerations apparently because it was hoped that the establishment of a unit with the majority participation of M/s. Joseph Lucas would enable quality production to be speedily organised and later help the development of exports. When the foreign collaboration agreement was approved in July 1961, it was also laid down that exports of the products manufactured in India would be permitted where such experts were not in conflict with any obligation of Joseph Lucas Industries Limited as on the date of the agreement.

1.11 The industrial licences were originally issued in favour of Lucas Indian Service (P) Ltd., one for the manufacture of starter motors, generators, voltage regulators, distributors, Horns (pairs), wind screen wipers, flasher units, horn relays and solenoids and a second one for headlamps, side lamps and tail lamps. M/s. Lucas-TVS were incorporated on 20th December, 1961 on the basis of a collaboration agreement between M/s. Joseph Lucas Industries Limited, U.K. principals of M/s. Lucas Indian Service (P) Ltd., and M/s. T.V. Sundaram Iyengar & Sons (P) Limited. It was the understanding of the two parties that the licence granted to M/s. Lucas Indian Services (P) Limited should be transferred to the new company for manufacture. It was further decided that the foreign collaborator would contribute 60 per cent of the equity of the new company and M/s. T.V. Sundaram Iyengar and Sons, 40 per cent. The new company, viz., 'LTVS' was to buy shares of Lucas Indian Services (P) Limited which was a subsidiary of the foreign collaborators. It was also agreed at the same time that despite this disparity in their equity holdings, both parties would have equal representation on the Board of Directors of 'LTVS'. This approach had the blessings of the Government of India.

1.12 The industrial licences were transferred to the new company in January, 1962: The construction of the factory was partially completed by the end of 1962 and trial production of certain items also commenced during that year. The construction of the factory was completed by 1964. The production of various items on commercial basis commenced as indicated below:—

Starters .						December	1962
Generators		•				January	1963
Regulators		•		• 1	•	January	1963
Headlamps		•	•			June	1963
Distributors			•			October	1963
Flashers .						May	1964
Wind Screen W	Vipers					March	1965
Solenoids .	•	•				July	1965
Horns .				• .		December	1967

Regarding the other two items—side lamps and tail lamps—the licence for these was surrendered by 'LTVS',

Capital Structure

1.13 On 31st March, 1972, the structure of the share capital of the company was as follows:—

Authorised Capital		Rs.	Rs.
2,74,000 equity shares of Rs. 100/- each	•		2,74,00,000
Issued and paid up capital			
2,44,000 shares of Rs. 100/- each fully paid up .	•	2,44,00,000	
30,000 shares of Rs. 100/- each, Rs. 60/- per share called	ed and		
paid up		18,00,000	2,62,00,000

1,34,400 shares of Rs. 100/- fully paid up and 30,000 shares of Rs. 100/-, Rs. 60/- paid up, were held by the foreign collaborators.

1.14 The names of these who are holding shares in this company are as below:-

TABLE 2

	Name of the shareholder	3					No. of shares held
1.	T.V. Sundaram Iyengar & Sons Pvt. Limited,	Madu	rai	•			40,655
2.	Sundaram Industries Pvt. Ltd., Madurai						44,026
3.	Southern Roadways Pvt. Ltd., Madurai .	} .		•	•		14,875
4.	Sundaram Finance Ltd., Madras			•	•		10,000
5.	Joseph Lucas (Industries) Ltd., England		•		• .		1,64,400
6.	Others; S/S T.S. Krishna T.S. Srinivasan T.S. Rajam T.S. Santhanam				•		44
	Total			•	•	•	2,74,000

^{1.15} Of the initial issue of Rs. two crores, the share of the foreign collaborators was Rs. 1.20 crores. This was met by remittance of Rs. 20,000/- in cash and by supply of Rs. 1,19,80,000 worth of plant and machinery.

^{1.16} Shares worth Rs. 50 lakhs were issued in May, 1964, and in this the proportion of the foreign collaborator continued at 60%. Against shares worth Rs. 30 lakhs issued to them, plant and machinery worth Rs. 18 lakhs was received and the balance of Rs. 12 lakhs is still due. Therefore, 30,000 shares were allotted to them as partly paid.

^{1.17} A further issue of Rs. 24 lakhs was made when Lucas Indian Service Pvt. Limited was taken over in the year 1968 by 'LTVS' and, in this issue, the foreign collaborator was given 14,400 shares of Rs. 100/- each against the purchase price of Lucas Indian Service shares. The balance has been allotted to other TVS companies with the permission of the Government and the subscription of Rs. 9.6 lakhs received from them was remitted to M/s. Joseph Lucas (U.K.) with the permission of the Reserve Bank of India.

Management and Organisation

- 1.18 The 'LTVS' is managed by a Board of Director on 31st December, 1972 the following persons were directors of the company:—
 - 1. Shri T.S. Krishna, Chairman & Managing Director.
 - 2. Mr. J. Wood, Managing Director.
 - 3. Shri T.S. Srinivasan, Director.
 - 4. Shri R. Ratnam, Director.
 - 5. Mr. J.M. Grammer, Director.
 - 6. Mr. C.P.D. Davidson, Director.
 - 7. Mr. R.T. Burton (Alternate Director to Mr. C.P.D. Davidson).

Of the six Directors in the Board, three are from the T.V.S. Group and three from the Lucas Group.

Relationship of 'LTVS' with Lucas Indian Service Ltd. and Lucas Electrical Tractors Service Limited.

- 1.19 M/s. Lucas Indian Service Limited (hereinafter referred to as LIS) is a 100% subsidiary of 'LTVS'. LIS was incorporated on 24th October, 1930 with an authorised capital of Rs. 40,000/-and was promoted as a wholly owned subsidiary of the foreign collaborators. The main object of floating LIS was to have a Lucas Group company in India to take care of the distribution and service of the items manufactured by the Lucas Group and imported into India. LIS promoted another service company on 5th May, 1952, called Lucas Electrical Tractors Service Limited (LETS) with the object of servicing essential bye-tractor components. It is a wholly owned subsidiary of LIS. The agreement regarding the formation of 'LTVS' provided that LTVS would purchase all the shares of LIS as on 1st January, 1965. As mentioned earlier, the takeover was completed on 1st August, 1968, on a consideration of Rs. 24 lakhs. On the date of the takeover, the 'subscribed and paid up capital of LIS was 51,338 shares of Rs. 10/- each. Thus, LIS became a wholly owned subsidiary of 'LTVS' and, pursuant to Section 4 of the Companies Act, LETS (Subsidiary of LIS) became a subsidiary of 'LTVS' from the said date. After the takeover, LIS issued bonus shares in the ratio of five new equity shares for one equity share held. Thus, at present, 'LTVS' holds 3,08,028 equity shares of Rs. 10/- each in LIS. Of these, six shares are held by Shri T.S. Krishna, Managing Director of 'LTVS' as the nominee of the said company.
- 1.20 LIS is engaged in the manufacture of ignition coils, rotor arms and distributor covers. It is also functioning as a distributor and servicing agent to provide 'after sales service', etc. for 'LTVS' products. LIS applied for expansion in the three fields where it is carrying on manufacturing operations. A Letter of Intent was issued to it on 1st November, 1972, on the basis of maximum utilisation of plant and machinery. But five conditions were proposed, one of them being that the shareholding of the foreign collaborators in the holding company i.e. in M/s. Lucas-TVS Limited, shall be reduced from the existing level of 60% to 51%, the resultant equity being offered to the Indian public. During the course of the discussions of the Commission's officers with the company's representatives, it was stated that no decision has yet been taken by LIS or 'LTVS' in this respect. In the meanwhile, on 3rd January, 1973, the 'LTVS' and LIS has applied for merger of the two companies. The applications under the Monopolies and Restrictive Trade Practices Act and the Companies Act, are pending before the Central Government and the Madras High Court respectively.

The Proposal

- 1.21 The applicant company is engaged in the manufacture of automobile electrical equipment. It is manufacturing the following 10 items:
 - 1. Starter
 - 2. Generator/Dynamo
 - 3. Regulator
 - 4. Headlamp
 - 5. Flasher
 - 6. Distributor
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- 7. Wiper
- 8. Switches (solenoids)
- 9. Horn and
- 10. Horn relays

The licensed capacity and production data for the years 1962-63 to 1971-72 in respect of these items can be seen from the information given in Annexure 'B'.

1.22 The company originally proposed to expand its activities in five out of the ten existing lines, as follows:—

TABLE 3

Prod	uct			Original annual installed capacity	Expansion Proposed	Proposed annual capacity after expansion
Starter .		•	•	74,000	1,76,000	2,50,000
Generator				78,000	1,72,000	2,50,000
Regulator	•			80,000	3,20,000	4,00,000
Flasher				41,000	2,09,000	2,50,000
Headlamp	•	•		1,20,000	3,80,000	5,00,000

1.23 Subsequently, as indicated earlier, the Company's proposal was considered by the Task Force set up by the Ministry of Industrial Development. The Company had claimed before the Task Force that it could produce much larger quantities on the basis of its existing plant and machinery through the maximum utilisation of such plant. The Task Force, however, did not agree to the regularisation of the maximum production capacity as claimed by the Company. It regularised capacity in the five items only in a limited way as indicated in the following table:—

TABLE 4

Name of the iten	n						Originally sanctioned capacity on one shift basis	Existing installed capacity on maximum utilisation of plant and machinery as claimed by the Co.	Capacity as regularised by the Task Force
Starter .		•	•				74,000	1,85,000	1,37,000
Generator					•	•	78,000	1,95,000	1,34,000
Regulator			•		•		80,000	2,50,000	2,03,000
Flasher		•		•		•	41,000	1,02,000	58,000
Headlamps							1,20,000	2,40,000	1,54,000

1.24 Taking the capacity as now regularised by the Task Force, the additional capacity which the Commission has to consider would be as follows:—

TABLE 5

Name of the iter	n					Capacity regularised by the Task Force	Final capa- city desired	Additional capacity to be considered by the Commission
Starter .						1,37,000	2,50,000	1,13,000
Generator		•		•	•	1,34,000	2,50,000	1,16,000
Regulator	•	•	•		•	2,03,000	4,00,000	1,97,000
Flasher		•		•		58,000	2,50,000	1,92,000
Headlamps						1,54,000	5,00,000	3,46,000

Objections raised to the proposal

1.25 M/s. Best and Company had formally raised an objection the proposal pointing out that the company was facing competition from 'LTVS' which was a dominant concern. It also felt that with continuing foreign collaboration and the use of the brand name 'Lucas', the competition offered by it to its competitors was more difficult to face. Its objections could be summed up in the following words:

"The expansion sought by M/s. Lucas-TVS appears quite staggering in content, if the growth achieved in the last twenty years in the country is to be any indication......This proposed expansion would mean a capacity to handly the full 100% requirements of the country till perhaps the turn of the century, more or less on a virtual monopoly......"

- 1.26 In the course of collecting information about the state of the industry, the Commission received comments on the proposal from various other producing units. Many of them raised objections to the 'LTVS' proposal. These objections were mostly among similar lines and emphasised the predominant position of 'LTVS' in the market, the special advantage enjoyed by it as a member of the TVS group and the difficulty of facing the resulting competition. 'LTVS' being licensed to manufacture the entire range of ancillaries for automobiles was also said to give it a special advantage as compared to most other units. It was suggested that allowing a very large expansion as suggested by 'LTVS' would make the position of the competing units very difficult. It would not only block the OE market but even the replacement market as the demand is not likely to increase as much as made out by the applicant company.
- 1.27 Objections were also raised by some small scale units producing some of the items. It was, for example, pointed out by small producers of headlamps that they have special difficulties in obtaining supplies of imported glass. This has already handicapped them considerably. A further expansion to 'LTVS' in an item like this would make their position very difficult.
- 1.28 A list of the various concerns which raised such objections is given in Annexure 'C'. Two of them viz., Globe Auto Electtricals Limited, Bombay, and Prestolite of Indian Limited, Faridabad, reiterated their objections during the public hearing.

CHAPTER II

THE APPLICANT'S OWN CASE

Past Record

- 2.1 An important plant of the applicant Company's case is that as compared to many other automobile ancillary producers, including M/s. Best and Company which was in the field before the applicant company entered it, it has been able to establish an excellent record regarding production both in terms of quantity and quality. Data given in Annexures 'B' & 'D' will indicate this. The production of the items like starters, dynamos, regulators, and headlamps increased rapidly from the time it was taken up in 1962-63. From the very beginning the production of quality items has been emphasised and attempts have been made to ensure that the standards laid down by the various vehicle manufacturers are fulfilled. Because of the different designs of vehicles of different types prevalent in the country—each of these with different specifications—considerable effort has had to be undertaken to satisfy the various special requirements. But the Company has not shirked this responsibility which is probably the reason why it has established itself as the predominant supplier of certain automobile electrical accessories for the purposes of original Equipment. As a result of the quality production undertaken by the Applicant Company, imports of these items could be completely stopped, thus fulfilling one of the Major objectives for which an industrial licence was given to the Company.
- 2.2. Moreover, the Company has made efforts not merely to substitute imported items but also imported raw materials in the manufacture of various items it is producing. The Company has been able to reduce the use of imported components very significantly as indicated from the following data:

TABLE 6

Percentage of import content in terms of cost of production

Prod	uct		65-66	66-67	67 -68	68-69	69-70	70-71	71-72
Starters 5" .			27.5	33.9	35.7	20.2	15.5	11.7	11.9
Starters 4.5" .	•	•	35.33	53.5	37.2	32.9	27.0	23.0	22.2
Starters 3.5" .			20.3	27.9	26.7	18.6	19.4	17.2	17.2
Dynamos 5" .			58.4	36.4	24.6	10,4	10.0	5.6	6.5
Alternators AC5	•					••	26.4	26.4	25.8
Alternators RM19	:		• •			• •	37.0	5.3	5.3
C40 Dynamos .		.•	35.3	34.2	22.9	10.9	11.0	11.0	
Regulators .	•		29.7	23.3	24.3	27.3	32.0	27.3	26.2
Headlamps .		•	41.2	33.8	20.0	15.3	9.9	10.4	12.1
Flashers .			14.2	11.2	16.7	4.9	8.9	7.5	7.8

^{2.3} In the few cases where import content has gone up this has been due to certain changes in designs etc. which required an increase in imported components. It has also been felt that the attempt to use indigenous materials in place of imported materials, while saving foreign exchange, has in certain cases led to an increase in costs because of the indigenous materials being more costly.

^{2.4} The Commission made certain enquiries from vehicle manufacturers regarding their experience of different producers of the ancillary items under reference. It was observed that all manufacturers are not only satisfied with the quality of products of Lucas TVS but they also have a word of praise for it. An analysis of road returns for a short period which the Commission obtained

from the applicant Company also led to the conclusion that the applicant company enjoys a marked lead in terms of quality and consumer satisfaction over other producers of these items. These are undoubtedly important points in favour of the applicant Company.

Research and Development (R&D)

- 2.5 The elimination of imported components has been one of the main aims of the Research and Development Department of the company. Where it was found that indigenous content remained low or the items required import of sophisticated material, it has frequently been necessary to redesign the product or even to substitute a completely new design.
- 2.6 The automobile electrical equipment industry being a capital intensive and precision industry, Research and Development is of great importance. Starting with 1963, the applicant company has incurred considerable expenditure on R&D as indicated by the following figures:

TABLE 7

Year					Amount spent on R&D Rs.	R&D expenditure as percentage of sales turnover
1966-67	•				4,70,703	0.88
1967-68					5,29,786	0.71
1968-69	•	•	•	•	5,14,284	0.71
1969-70			•	•	6,49,240	0.90
1970-71					8,24,136	1.30
1971-72	•	• .	•	•	18,28,000	1.80

- 2.7 An expenditure of about one percent on the sales turnover is usually considered appropriate for R&D. It should be noted that this expenditure includes the purchase of capital equipment.
- 2.8 To ensure import substitution, R&D activities focussed attention on the selection of right type of raw materials, processing them, examining boughtout parts and preparation of designs of proto-types. Machines had to be designed for the quality control division and also for the needs of the sub-contractors. A development laboratory has been set up for designing and setting up of test equipments and metallurgical and chemical laboratories have been set up to maintain control over the incoming raw materials. Regarding product development, the Company has made use of the basic know-how from its foreign collaborators and, by adapting it to Indian requirements, has developed various new designs and products. It has brought out new designs so as to improve performance efficiency and also the marketability of its products. A list of the new and modified designs of the existing products developed or being developed by the applicant company is given an Annexure E. The Company has also applied for a number of Indian and world patents (See Annexure F). Another aspect of R&D that has been given increasing importance is value analysis. A special team was formed in November, 1970 and its work is already claimed to have led to much savings. New product designs are sometimes attempted to be introduced as a means of reducing the cost. The examples specially mentioned are the new starter motor for the Fiat Car which led to a saving of about Rs. 30 per unit side with improved reliability and indigenous content, 4 ST starter solenoid and 24 Volt Precision of 3 G.C. electro mechanical regulator. The Company has also attempted to extend the benefit of its R&D work to help its suppliers. Sequential sampling and supplier quality assurance schemes have been introduced, so as to provide speedy feed-back of information to the suppliers. The R&D Department of the Company is also taking a leading part in the formulation of Indian Standards relating to these items.

Ancillary Development

2.9 The Company has pointed out that it is its established policy to encourage growth of quality conscious ancillary industries, especially those in the small scale sector, as feeder units. It has progressively expanded its sub-contracting activity and there are now about 300 ancillary entrepreneurs delivering components and raw materials to the company. 1&3 of them in the small scale sector.

In addition, there are more than 100 ancillary units supplying special tools, gauges, jigs and fixtures. The Company has claimed that it provides various kinds of assistance to the ancillary units such as technical assistance for establishing and improving manufacture and design methods; procurement and supply of materials or loaning out of gauges and complicated tools; financial and tenchnical assistance in purchase of machines and raw materials; and training of personnel. Close liaison is also maintained with Small Industries Service Institute and other organisations.

2.10 Out of 2327 components and parts required by the Company, 53.2 per cent are produced in the Company itself and 46.8 per cent are brought out or off-loaded. 4.6 per cent of the total components are imported items and 6.4 per cent are supplied by sub-contractors who are small industrialists. The remaining 35.8 per cent of items are purchased from vendors who are not necessarily small industrialists.* Such enquiries as the Commission could make from the ancillary industries attached to the Company indicated that the Company indeed made various facilities available to these units. The Company also claims that it continues to make an effort to see what items it can further off-load to the small scale sector. Many times requisite capacities are not available in the small scale sector, and production of such items by the Company becomes inevitable.

The Nature of Electric Accessories

2.11 In the light of the Company's performance in the past it is claimed that further expansion on the lines suggested will be of considerable benefit to the country's economy. Electrical equipment is vital to the functioning of the vehicle system. The creation of such products of a high quality requires extensive design and development work followed by intensive testing. Moreover it is claimed that the various electrical equipment items in a vehicle are interdependent and constitute a totally integrated engineering system. Reliability of the system is dependent not only on the quality and reliability of individual items but also on their mutual compatibility. The applicant Company provides a full range of electrical equipment.

- 2.12 Vehicles in India operate under vastly varying climatic and environmental conditions. The electrical equipment has to be designed, manufactured and serviced to meet this whole variety. Further the consumer industry consists not only of motor cars and commercial vehicles of different sizes and types but also earthmoving equipment, tractors, defence and other special purpose vehicles, two and three wheelers and stationary engines. These various items are manufactured in India on the basis of different foreign collaborations. There are therefore many different versions and designs requiring the electrical equipment also to be specifically designed to suit the particular variety. "To ensure manufacture of such a variety of sophisticated engineering products to the right quality standards, a high order of manufacturing technology involving heavy capital investment in plant, machinery, tooling and ancillary service is essential". The applicant Company claims that the capability it has built up makes it possible for the Company to ensure that such a service can be provided through its expansion.
- 2.13 It may be noted that the Company has not asked for expansion in all the ten items that are in production. No expansion has been asked in respect of wipers, switches, horns and horn relays and distributors. The Company has not been able to utilise even the existing installed capacity in these items to a significant extent. This is due to various reasons. Switches, for example, are not being manufactured by the Company at all but produced through small scale producers and, after quality testing, marketed by the Company. The production of wipers, distributors and horns is being continued because, for certain parts of the production process of these, general purpose machines available with the Company can be used. But the demand for these items produced by the Company is not as intense as for the other five items. These are also items with low technology inputs and a number of other producers are producing them. The Company is therefore not thinking in terms of expanding its production in these items but concentrating for further development on the other five which are more sophisticated in character and in the production of which it is specially

^{*}Following a disscusion on this point at the public hearing, the Company has submitted some further information regarding the break-up of bought out items. A copy of the letter sent by the Company is given at Annexure I. We find that the information now supplied is not along the lines collected by the Commission's staff earlier during their visit to the works. It is especially not clear whether 835 items mentioned in Statement 'A' of the Company's letter duted 21st May, 1973 are supplied by registered 'small scale' units or by "suppliers whose investment is Rs. 7.5 lakhs and below". These latter may or may not be small scale producers: they may well be small traders. The Commission herefore things that no change needs to be made at this stage in the statement made in our report.

distinguished. To the question regarding why some of the former items cannot be given up by the Company, the Company's answer has been that their production to a limited extent is necessary for the maximum utilisation of plant and machinery. Moreover, vehicle manufacturers who require special qualities are said to insist on getting these items from the applicant Company.

Economies of Scale

2.14 The Company has claimed that it will be able to obtain major economies of scale and has indicated this as one of the grounds on which its proposal is justified. In this connection it is useful to note that it had originally estimated the cost of capital outlay for the proposed expansion at Rs. 326 lakhs—Rs. 41 lakhs for buildings and Rs. 285 lakhs for machinery. This was later revised so that the cost of machinery was brought down to Rs. 140 lakhs. At the same time, the total requirement of finance was revised upwards to Rs. 368 lakhs, its composition being as follow:

				TAB	LE 8			
1.	Production machi	nery	•			•		Rs. 140.14 lakhs
2.	Infra-structure							Rs. 110.00 ,,
3.	Buildings				•	•		Rs. 69.00 ,,
4.	Replacements etc.							Rs. 18.02 ,,
5.	Furniture etc.							Rs. 30.70 ,,
	Тотаг							Rs. 367.86 ,,

- 2.15 It is claimed that this revision has two implications. Firstly, the large extent of infrastructure which includes the building up of R&D and quality control facilities is of special importance to meet the increasing requirements of high quality production and also the increasing use of indiginous technology. Secondly, the reduced expenditure on machinery is an indication of the projected efforts at further ancillary development so that there would be a larger proportion of bought-out items in the future as compared to the past. It is thus claimed that the expansion would be brought about in such a manner that the applicant Company would concentrate on processes which require a high degree of sophistication and build up facilities for such work, at the same time farming out to ancillary suppliers the work that can be done through them. It is thus claimed that the expansion would serve the complementary purpose of spreading entreprenurship.
- 2.16 It is also claimed that if R&D work of increasingly intensive character is to be undertaken, output needs to be expanded the support it. It has been suggested that this would represent significant economies of scale not so much in terms of direct cost reduction as in terms of better quality products and also more saving in use of materials—specially scarce and imported materials.
- 2.17 The Company was asked to specify by examples how the proposed expansion would lead to cost reduction. It selected five specific models in the five items and indicated what, in its view, would be the effect of expansion on the cost of production. The effect on cost is indicated as follows:

TABLE 9

Descrip	ription of the model			sales escala- Ec in tion and 1971-72 antici- pat				Scale Economantici- pated	Net ny Effect	Cost of Sales 1980-81	% of (4) to (2)	% of (4) to (6)
					Rs.	pated Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
		(1)			(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Starter 5'				•	479.50	87.27	70.04	+7.23	496.76	14.6	14.1	
Generator 4"					137.55	25.48	22.71	+2.77	140.32	16.5	16.2	
3 GC Regulator			•		35.35	6.58	6.66	0.08	35.27	18.8	18.9	
Head Lamp					34.27	6.42	5.60	+0.82	35.09	16.4	16.0	
Flasher			•		9.60	1.20	0.76	+0.44	4.07	20.9	18.7	

- 2.18 The company has furnished the above figures with the following stipulations:
- (1) The scale of economies anticipated are based on prices and wage rates prevailing in the year 1971-72 and do not account for any future escalation. Hence these statements cannot be considered as potential for price reduction;
- (2) The company anticipates a cumulative material price escalation of $2\frac{1}{2}\%$ p.a. However due to efforts of the Research and Development department in value analysis, and scrap reduction due to better quality control, the company may be able to bring down the effect of excalation to 2% p.a. This net 2% p.a. escalation has been shown as Rate Escalation Anticipated. The net 2% escalation p.a. does not include price escalation due to Government Budget Levies.
- 2.19 It is thus indicated that there would be significant reduction in costs as a result of the expansion between 14 and 20% as compared to the cost of these items in 1971-72. This is certainly an important argument in favour of the expansion. It should be noted however that, as the Company itself has emphasised, these projections cannot be used as a basis for any price reduction. It has not been possible for the Commission to examine to what extent these economies would be actually realised.
- 2.20 The applicant has indicated that, as a result of the expansion programme, employment opportunities will increase as follows:

TABLE 10

Category of e	mployn	nent			No. as on 30-11-	72 No. in the Year 1980-81
Managerial				•	39	40
Skilled & sen	ni-skille	d		٠	. 1149	2500
Unskilled				•	189	300
Others	•	•	•	•	808	860

This indicates that increase in the labour force will be about 70%. The increase would be proportionately much larger in the skilled and semi-skilled categories as compared to the others.

Export increase

- 2.21 It has also been claimed that with the quality goods that the Company will manufacture, and the international contracts available through its collaborators, the Company will be in a position to effect substantial improvements in its export sales and thus help improve the foreign exchange earnings for the country. In this connection the following data would be interesting:
- 2.22 The exports of the applicant Company in the past three years for the five items under enquiry have been as under:—

TABLE 11

Year			Value of direct exports	Value of indirect exports* (Figures in lakhs of rupees)	Total
1970-71		•	25.51	26.94	52.4 5
1971-72	•		11.21	23.60	36.81
1972-73			13.69	••	13.69

^{*}Indirect export indicates fitments in the vehicles that are exported from the country.

2.23 For the furture the Company expects to increase its export performance (direct exports) to about Rs. 40 lakhs in 1973-74, Rs. 57 lakhs in 1976-77 and Rs. 74 lakhs in 1979-80. When specifically asked about the extent of export obligation that the Company would consider feasible, the answer was that they would be their best to increase exports to the maximum extent possible and that they definitely hope to be able to meet an export obligation of 5%. It may be noted that 5% export has now been made obligatory on all such industries. In effect therefore the Company does not seem to be very hopeful of expanding exports on any significant scale.

Why Expand now?

2.24 We shall deal later with the question about the existing capacity and its utilisation. One obvious question that arises about the expansion proposal of the Company is when it is not at present utilising its sanctioned capacity to the full extent, why should it come up with a large expansion proposal? Why not wait till it faces a capacity constraint? The Company's answer is two-fold. Firstly, it expects that the demand will expand considerably in the next five to eight years and that the demand would specially increase for heavy duty vehicles and engines for which the applicant Company's products are favoured. Secondly, the gestation period between obtaining approval of Government for an expansion and its actual implementation is quite long at least three or four years. It is therefore considered necessary that the Company should be given a clearance for its expansion proposal now so that it can plant its expansion over the next eight years in a systematic and thorough manner. It is claimed that much thought has been given to this expansion and that the Company will be in a position to organise its cooperations economically and efficiently if the expansion is approved now. The constant escalation in cost of building materials as well as of plant and equipment has also been pointed out as an important reason why expansion should be permitted early. If implementation of the proposal has to be delayed, it is not unlikely that there would be a further escalation in the capital cost and the Company's capability of effecting cost reduction would then be seriously jeopardised.

Tustification

- 2.25 In a nutshell the applicant Company has justified its proposal with reference to the criteria laid down in Sec. 28 of the Monopolies & Restrictive Trade Practices Act on the following grounds:
 - 1. The company has been able to supply quality goods for the various types and models of vehicles operating in India both in civilian and Defence sectors;
 - 2. It has been able to satisfy its customers with very prompt, after sales service by a net work of service stations;
 - 3. The company will be able to achieve economies of the scale as a result of the proposed expansion;
 - 4. With the quality goods that the company is manufacturing and the international market acquired by its collaborators over a period of 4/5 decades, the company, if the expansion is sanctioned, will be in a position to effect substantial improvement in its export sales which will bring to the country much needed foreign exchange;
 - 5. The company possesses a specialised knowledge acquired by its collaborators in research and development and has also established its own facilities for research and development. These facilities will enable the company to effect technical and technological improvements in the products and their achievements in R&D will benefit the industry and the country at large. The company is not the only manufacturer for these products. There are already a few other established manufacturers and others who propose to enter the field and to whom letters of intent have been issued. The Company will thus be having sufficient competition in these fields.
 - 6. The company has already developed a large number of ancillary industries in the small scale to cater to its needs. The expansion in capacity will allow the company to play a more fruitful role in developing small scale industries for supply of sub-contracted items and bought out items by helping them with technical assistance over and above what has already been done. This will act as a nucleus of improvement in the general engineering capabilities in the country as a whole.
 - 7. The porposed expansion will provide employment for a large number of personnel;
 - 8. The expansion programme will benefit Padi village and Ambattur in Chingleput District in Tamil Nadu which remained backward.

CHAPTER III

EXAMINATION OF THE PROPOSAL

3.1 When examining the proposal of the applicant company a preliminary point that has to be kept in view is that the applicant Company is interconnected with a number of other companies all of them belonging to the Large Indistrial Houses of 'T.V. Sundaram Iyengar' with assets exceeding Rs. 50 crores. Some of the interconnected companies are engaged in the production of other automobile ancillaries and are dominant in certain fields of production. LTVS, the present applicant company, is a closely held concern, 60 per cent of its equity being held by M/s. Joseph Lucas Industries (U.K.) and 40 per cent by various interconnected companies of the TVS group, the ultimate ownership of their equity being held by members of one family. Moreover the company holds a predominant position in a number of items among which are included starters, generators and flasher units in which its share of total production exceeds 2/3rd, and regulators in which it is 57 per cent (See Table 13 below). Only in one of the five items proposed for expansion viz., head-lamps is its share in total production not dominant—it is only 24 per cent. It is thus obvious that permitting expansion as proposed would require very special justification.

LTVS Capacity - number of shifts

- 3.2 One initial question that arises regarding this proposal is whether the proposal is justified in view of the fact that the existing 'capacity' available to the applicant Company in respect of the items under reference is not being fully utilised. The question about what exactly is "capacity" and what can be considered to be its appropriate utilisation are also important in this connection. We noticed that LTVS itself has not followed any uniform practice in this regard. In tis original application, it had mentioned "sanctioned capacity" which was laid down on one shift basis. It approached the Task Force under the Ministry of Industrial Development and claimed that it should be granted regularisation of its existing installed capacity on the basis of "maximum utilisation of plant and machinery". As indicated earlier, the Task Force accepted regularisation of its installed capacity at levels of output significantly lower than what the Company that claimed on the maximum utilisation basis (see table 4 above). The applicant Company has now pointed out to us that figures worked out on the basis of maximum utilisation of plant and machinery are based on the assumption that the factory will work for $22\frac{1}{2}$ hours daily, i.e., about $2\frac{1}{2}$ shifts. But currently two shifts of $9\frac{1}{2}$ hours each, with half an hour's break, for 5 days a week are being worked. This provides effectively 18 working hours a day, or 90 hours a week.
- 3.3 As compared to the additional expenditure, there will be inadequate return for the third shift. Therefore, the actual capacity should be worked out on the basis of two shifts and, if this is done, the position regarding installed capacity, extra capacity asked for and the difference between the two capacities will be as follows:

TABLE 12

Lucas TVS capacity

Name of the	e item		Capacity on double shift basis	Total capacity now desired	Difference between total capacity now desired and capacity on double shift basis
Starter .			1,48,000	. 2,50,000	1,02,000
Generator			1,56,000	2,50,000	94,000
Regulator	•		1,60,000	4,00,000	2,40,000
Flasher .			82,000	2,50,000	1,68,000
Headlamps		•	2,40,000	5,00,000	2,60,000

- 3.4 The Company has indicated the following specific objections to three shift working:
 - (i) There will be objection from employees who have become used to a 5-day week;
 - (ii) There will be practically no time available for maintenance if the factory were to work three shifts for six days a week;
- (iii) Productivity in the third shift in such engineering industries will be very low and might make the whole third shift operation uneconomical.
- 3.5 The question whether the factory should work three shifts was gone into the detail by the management some years back. After considering the pros ond cons it was decided that the factory should not work on a three-shift basis.
- 3.6 The Commission will have to take not of these points made by the applicant Company about the difficulties in operating on more than a two shift basis. It may therefore be assumed that, except in an emergency, it will not be possible for the Company to utilise its plant and machinery on more than a two shift basis.

Licensed Capacity and its utilisation

- 3.7 As indicated in Annexure 'D', at present there are four producers (including the applicant Company) having a capacity for the production of starters, four for generators, five for regulators, five for headlamps and for flasher unit producers registered with the DGTD. In addition, there are some small scale producers.
- 3.8 The data given in Table 13 show that there is considerable unutilised capacity for all the five items, such capacity varying from 17 per cent in regulators to 78 per cent in flasher units. Of course, when taking note of these data, it is necessary to remember that capacity figures are never quite perfect, there is usually some lack of balance in any production unit so that the actual capacity is likely to be larger than the stated capacity.
- 3.9 The applicant Company has a predominant share in the licensed capacity regarding starters, generators, and regulators (over 50 per cent) while its share is smaller in the capacity for headlamps and flasher units. Because of various factors, the share of the applicant Company in actual output is much larger than its share in the licensed capacity except in the item headlamps. Its share in the total production is as high as 72 per cent in starters, 69 per cent in generators, 66 per cent in flashers and 57 per cent in regulators, but only 24 per cent in headlamps. It should also be noted that the applicant Company itself has unutilised capacity to the extent of 31 per cent in starters, 30 per cent in headlamps, 23 per cent in generators and 14 per cent in regulators, while it is producing 75 per cent above its sanctioned capacity in flasher units.

TABLE 13

Name o	of the	item		Total capacity licensed (12 months)	Proportional licensed capacity for 10 months	Production for 10 months
1				. 2	3	4
Starters .		•	•	2,32,000	1,93,334	1,09,977
Generators	•	•	•	2,46,000	2,05,001	1,26,164
Regulators		•	٠	3,71,000	3,09,165	2,56,568
Headlamps				6,44,000	5,36,661	3,79,843
Flasher units		•		6,53,000	4,98,333	1,32,400*

^{*}Production data pertains to twelve months and includes production of two units only. Capacity utilisation has been worked out for those two units only.

Percentage utilisation of the licensed capacity	Share of LTVS in the licensed capacity given in column 3	Share of LTVS in the total production (col. 4)	Capacity utilisation by LTVS
5	6	7	8
	(in percentage	.)
57	59	72	69
62	54	69	77
83	55	57	86
71	24	24	70
22	9	66	175

Notes .-

- 1. The above figures do not include the capacity and production of small scale units which are found to be mainly manufacturing Headlamps.
- 2. Percentage utilisation in the case of Regulators has gone up because M/s Prestolite of India Ltd., have produced 85,503 Regulators which works out 513% of their Licensed Capacity.
- 3.10 The statement also shows that for the industry as a whole, the idle capacity was as follows:

Starters .	•	•	•	43%
Generators			•	38%
Regulators		•	•	17%
Headlamps		•		29%
Flasher units				7 8%

The problem which we are required to consider is whether in spite of so much idle capacity, further capacity should be licensed.

- 3.11 The reasons given by the various other manufacturers for not reaching the licensed capacity and for being much below Lucas in the matter of capacity utilisation are mainly three-fold, viz.
 - (1) Vehicles in India are of continental designs and hence Lucas brand items can be easily sold to original equipment manufacturers even at higher prices because these conform to the requirements of the vehicle manufacturers.
 - (2) 'Lucas' brand name is a big consumer attraction and therefore, LTVS items get sold even at a higher price.
 - (3) LTVS has been in the field for a long time with foreign collaboration and thus have gained initial advantage over others who came in the field at a later date.
- 3.12 Though the other manufacturers have not specifically stated why they have not been able to reach the Licensed Capacity it appears that the main reasons for this has been the lack of demand. None of them have mentioned any technological or other reasons for not being able to reach the licensed capacity. Even LTVS, whose share in the market has been the largest, has not been able to achieve the full production on double shift basis because of lack of demand except in the production of flasher units.

Demand analysis

3.13 One of the most critical problems in examining the proposal is that of the demand estimate for these items. In major part, the demand for these items is related to the production

of auto vehicles of different kinds—passenger cars, commercial vehicles, special purpose vehicles, two-three wheelers and tractors. The demand for starters may also arise from certain special types of stationary engines. When considering the different estimates of demand that have been made in the past, it is necessary to remember that there has been a noticeable tendency for estimates of vehicles production being put at levels which have usually not been reached in successive Five Year Plans*. To take the latest example, the estimated target of production of commercial vehicles

*				Target (000)	Production (000)	Production as % of target
First Plan .			•	30	25	83
Second Plan	•			57	55	96
Third Plan				100	71	71
Fourth Plan	•	•	•	175	107 (anticipated)	61

(Data relate to Commercial vehicles, jeeps and cars)

at the end of the Fourth Five Year Plan, viz. the year 1973-74, was 85,000. As compared to this the production of these vehicles was only 41,500 in 1970-71 and in the year 1972 it was 37,400. The revised target for 1973-74 has therefore been put at 50,000. The target for tractors was 50,000 while the actual production in 1972 was about 18,000 and the expected production in 1973 is 40,000.

3.14 When preparing the demand estimates for the Fifth Five Year Plan, the Task Force for Transport and Allied Equipment had assumed the following annual production of commercial vehicles etc., by 1978-79:

TABLE 14

2.	Commercial	vehic	cles (l	ight)	at his	3. EU	170		•	27,000
3.	Cars .			•			777)			1,65,000
4.	Jeeps .		•		(CIPE)				.•	18,000
5.	Tractors				neni	ात न	ाने -			80,000
6.	Power tillers				(dod)	14 4	451		•	20,000
7.	Earth moving	g equ	iipme	nt				•	•	4,500
8.	Stationary en	gine	s .							3,00,000

On this basis the demand for the items under reference was worked out as follows:

TABLE 15

				O.E.	Replacement	Total (in Nos)
Starter motors				3,65,000	50,000	4,15,000
Generators			•	3,65,000	50,000	4,15,000
Regulators	•		•	3,65,000	5,45,000	9,10,000
Headlamps			•	15,50,000	3,80,000	19,30,000
Flashers .		•		2,85,000	9,55,000	12,40,000

^{3.15} The Working Group itself had however realised that vehicle production had developed far more slowly than was expected when the Fourth Plan was formulated, the result being that the demand for components was also subsequently observed to be much less than originally

expected. The working Group pointed out, "in the case of components which have been found to be under short supply, it has been noticed that the shortage is mostly due to brand preference of consumer goods. A considerable portion of the installed capacity with ancillary manufacturers lies unutilised. The extent of under-utilisation however, varies from plant to plant. In some cases, plant utilisation is high and in certain other units, it is less than 50 per cent". In view of this, the Group had itself further assumed that the production of motor vehicles etc., may turn out to be actually much less than anticipated. Further, not all stationary engines would require starters. Hence the estimate of demand for starters etc. was put at a figure much lower than what would be appropriate on the basis of an estimated production of vehicles, viz. at 6,94,500.

3.16 The Applicant Company has also relied on the demand estimates provided by the Task Force and its Working Group and further pointed out that these do not cover the requirements of defence vehicles and stationary engines. It has therefore, given its own estimates both for 1978-79 and for 1980-81 as follows:

TABLE 16

Estimated Vehicle Production

								LUCAS-TVS estimate Defence	including
		***						1978-79	1980-81
1.	Medium & He	avy c	ommer	cial	vehicl	es .	2	92,000	104,000
2.	Light commerc	cial ve	hicles		- 4	6 North		24,000	30,000
3.	Total Commer	cial v	ehicl e s	•				116,000	134,000
4.	Cars					AND STATES		165,000	175,000
5.	Jeeps	•,	•	•	•	7.01	444	35,000	40,000
6.	Total Cars & J	eeps				A SHOW	A ALLES	200,000	215,000
7.	Motor cycles		•				951/27	200,000 \	410,000
8.	Scooters .	•	•			0558-3835	-2276-63	400,000	900,000
9. 10.	Mopeds . Auto Rickshaw	•	•	•	•	सन्दर्भ	व जयने	200,000 }	
•		5 .	•	•	•	-1-4	1 -1 -1 -1	ر 21,000	
11.	Tractors .			•	•	•	•	100,000	110,000
12.	Heavy duty &	indust	rial Sta	ation	ary c	ngines	•	40,000	48,000
							Estim	ates of demand for 5 item	S
l.	Starters .							4,86,000	5,45,000
2.	Dynamos/Alter	nators					•	4,86,000	•
3.	Regulators					•		8,76,000	5,45,000
4.	Flashers .		-				•	, , ,	9,95,000
5.	Headlamps	•	•	•	•	•	•	13,00,000	14,50,000
٥.	Trauminps		•	•	•	•	•	19,00,000	20,50,000

^{3.17} It is known that recently the Planning Commission has published its paper on the "Approach to the Fifth Plan" and this has been approved by the Cabinet. The basic magnitudes as indicated in the Approach document will now form the basis of the Fifth Plan. The figures given in the Approach document not only take into account what the demand for different items at the end of the Plan would be but also, as a part of the balanced development of the economy, what output given in the Approach document may therefore be taken as over-riding those worked out earlier by various sectoral task forces and working groups including the Task Force on Transport and Allied Equipment. It is of course possible that some minor adjustments in the targets indicated in the Approach Paper may be made later in the year. It is obvious that the targets for motor vehicles given in the Approach document, being part of a series of balanced targets for all important sectors, have to be taken as a more appropriate basis for guiding our thinking at this stage than targets worked out earlier by various other authorities.

3.18 The Approach document has laid down that the rate of growth per annum for motor vehicles in the Fifth Plan period will be 7.04 per cent, i.e., 40.5 per cent for the five year period. In clarification the Planning Commission has indicated* that, with an expected output of 117,000 motor vehicles (including three wheelers) in 1973-74, the vehicle production may be expected to reach 164,000 by 1978-79. The estimated production of tractors remains at 80,000. To this number have to be added defence vehicles. Thus production of vehicles including all these types may reach about 258,000 by 1978-79. It has been indicated to us by the DGTD that the number of stationary engines requiring the use of starters may be taken at about 25,000 by 1978-79. Accepting these figures about the likely production by 1978-79 and using provisions for replacement etc. on the lines used by the Task Force, the demand estimates* for starters, generators and regulators will be as follows:

			OE	Replacement	Total
Starters .			2,83,000	39,000	3,22,000
Generators		•	2,83,000	39,000	3,22,000
Regulators	•	•	2,83,000	4,23,000	7,06,000

3.19 The estimates for headlamps and flashers may be proportionately adjusted and they will be as follows:

Headlamps		10,25,000	2,50,000	12,75,000
Flashers .		1,90,000	6,30,000	8,20,000

3.20 In order to ensure that the actual production can reach the estimated demand, a cushioning of about 25 per cent is usually provided in sanctioning capacity. The required capcacity by 1978-79 may therefore be worked out on that basis. After considering the actual installed capacity at present, and also the additional capacity which appears most likely to be created on the basis of the Letters of Intent already issued, the capacity likely to be created in these items may be as follows:

TABLE 17

			Already installed capacity	Likely additional capacity	Total
Starters .		•	2,32,000	85,000	3,17,000
Generators			2,46,000	80,000	3,26,000
Regulators			3,71,000	78,000	4,49,000
Headlamps			6,44,000	6,30,000	12,74,000
Flashers .	•		6,53,000	2,50,000	9,03,000

3.21 On this basis, the gap between the capacity likely to be available by 1978-79 and the capacity required (with 25 per cent cushioning) would be as follows:

TABLE 18

			Capacity required	Capacity likely to be created	Gap
Starters .	•		4,00,000	3,17,000	83,000
Generators			4,00,000	3,26,000	74,000
Regulators			8,80,000	4,49,000	4,31,000
Headlamps			15,90,000	12,74,000	3,16,000
Flashers .	•		10,25,000	9,03,000	1,22,000

^{*}Planning Commission, Industries and Minarals Division, D.O. letter No. I & M-4 (27)7/73 dated the 8th May, 1973-†For details, see Annexure 'G'.

- 3.22 This appears to us to be the most reasonable basis for considering the proposal of the applicant Company. It may be objected—and the applicant Company has raised such objections at the public hearing—that the rate of growth envisaged in the Approach document is too low as compared to the demand and also the expectations that the various vehicle producers have about to increase in production. We have already mentioned above that in a planned economy such as ours, it is not merely the wishes of the producers or even those of consumers which will govern the growth of an industry. The growth of any one industry cannot but be related to the priority given to it by the planners in the overall scheme of development. The fact that there is a long waiting list for passenger cars may not necessarily induce the Planning Commission to permit larger capacities to be created for passenger cars. That there are a large number of Letters of Intent issued for items like tractors has no special relevance to what one may expect to be the actual output of tractors at the end of the Fifth Plan. It is well known that quite a large number of these Letters of Intent will be infructuous. It has been suggested that some special provision is necessary for replacement demand. But the Approach document indicates what the appropriate availability should be—whatever the origin of the demand. The replacement demand is thus already allowed for. In addition, we are allowing 25 per cent cushioning when estimating capacity requirements. We therefore think that the estimate prepared by us is sufficiently accurate for the purpose of examining the present proposal.
- 3.23 We have devoted special attention to this problem of the demand estimate because such an estimate is of crucial importance in the examination of this case. The applicant Company, as already indicated earlier, is not only a dominant but a pre-dominant undertaking in terms of licensed capacity and, even more, in terms of actual production regarding the items in which it wants further expansion. Its competitor undertakings are already finding it difficult to obtain and maintain a foothold in the market. If, because of an over-optimistic and excessive estimate of future demand, and therefore an exaggerated idea of the gap between the required capacity and the capacity likely to be created, the full expansion is permitted to the applicant Company, it is not unlikely that its competitors will face serious difficulty. If the market demand turns out to be much smaller, the applicant Company, with its already established hold in the market and also its financial and other strength, arising from its association with a giant British company on the one hand and large interconnected Group on the other, would be in a far better position to maintain itself against all odds and drive its competitors to the wall. The Commission has to guard against such a situation. Hence the importance of making as realistic an estimate of future demand as well as the capacity likely to be available as possible.

The Gap

3.24 It will be noticed that as compared to the estimated gap in the capacity required for satisfying the demand up to the end of the Fifth Five Year Plan, the expansion in capacity proposed by the company over and above the capacity already regularised by the Task Force is quite significant. (See figures below).

TABLE 19

Item							Gap	Additional capacity proposed
Starters .	•				•	•	83,000	1,13,000
Generators							74,000	1,16,000
Regulators							4,31.000	1,97,000
Headlamps						•	3,16,000	3,46,000
Flashers .						•	1,22,000	1,92,000

3.25 Thus the additional capacity proposed by the company would exceed the gap in the case of starters, generators and flashers. It is true that the company's proposal is for the creation of the capacity by the year 1980-81, i.e. two years after the end of the Fifth Five Year Plan. It may be that the creation of additional capacity of this magnitude can be justified in the light of the requirements of the Sixth Five Year Plan. We shall however have to examine whether it is necessary on technical or economic grounds to sanction this capacity from now on. Our information about the rates of growth of the vehicles industry for the Sixth Plan is scanty, no estimates have been prepared by any official body in this connection. We also do not know how far capacities will be created by

other producers in the industry during the Fifth Plan period. It would therefore normally be premature to sanction additional capacity at present to meet the Sixth Plan requirements. This may be unavoidable however if it is found that the gestation period for the expansion project is so long that the Sixth Plan requirements cannot be net unless required capacities are sanctioned now. Another possibility would be if the nature of the plant and machinery is such that considerable economies of scale would be available by projecting the demand for 1980-81 from now and, on that basis, setting up machines of very large capacities in case they are likely to provide large scale reduction in costs. Unless some such special considerations exist, it may not be justifiable to sanction additional capacity at present for meeting what the Company suggests would be the requirements by the year 1980-81.

3.26 In this connection, it may also be mentioned that the applicant Company had indicated to the Task Force of the Ministry of Industrial Development as late as July, 1972 that the proposal for regularising what was called its installed capacity on the basis of the maximum utilisation would be quite adequate to meet foreseable demand. "Considering the present rate of growth of the vehicle and tractor industry", it was said, "we feel that no further expansion is necessary for our products besides quantities that we have asked for by maximum utilisation of the plant and machinery".* When asked to explain how the Company had revised its demand estimate and capacity requirements now, it was explained that, in the application to the Task Force, the company was considering a shorter time horizon, i.e., the growth of the vehicle and tractor industry during the next two to three years. The present application was for substantial expansion which would cover a period of six years. It was also explained further that there was a change in the prospects of the vehicle industry. Since, July, 1972 when the application to the Task Force was made.† It need to be noted in this connection that the present application under the M.R.T.P. Act was made as early as December, 1970 when there was no question of any Task Force report or any additional capacities in various vehicle units. It would not therefore be unreasonable to suggest that the company's proposal is related to its own expectations of the manner in which it should grow further, and not necessarily to the demand estimates of the Task Force or the Planning Commission.

Proposed Product-Mix

- 3.27 It has already been indicated earlier that the Company is proposing expansion of capacity only in respect of five out of the ten items for which it holds an industrial licence. In addition to the reasons indicated by the company and mentioned earlier, it is also obvious that the lower profitability in respect of these items‡ and also the fact that the demand for these items is not as inelastic in respect of LTVS products as compared to other items produced by it also must have played a part in this selection. The company has however stressed that expansion in respect of all the five items now proposed for expansion is necessary because of the integrated nature of those electrical items. Mutual compatibility of the items is thought to be of considerable importance in order to ensure efficiency. Our discussions with various experts regarding this matter indicated that this reasoning is hardly applicable to flashers and headlamps. As a matter of fact, a number of vehicle manufacturers who wholly or largely rely on LTVS for the OE supply of starters, generators and regulators do not obtain OE supplies of headlamps and flashers from this source. It may also be noted that there are producers who are only producing headlamps and flashers and still are able to secure orders for OE purposes. It has even been suggested that generators and regulators have usually to go together; but this is not necessarily so regarding starters. They can be obtained from a different source. Many vehicle manufacturers however prefer to obtain all these three from one source as this facilitates after-sales service. On commercial grounds therefore there may be justification for ensuring that the capacity of any producer, at least in these three items, is expanded on a reasonably proportionate basis. There is no such obvious necessity in respect of headlamps and flashers.
- 3.28 It has however been pointed out by the Company that there are certain common facilities for all the electrical components under production by the Company. Many general purpose machines can be more fully utilised if the number of items is large. On the other hand, there are special purpose machines which are only used for certain items; for example, the lacquering and aluminising machines are used only in the manufacture of headlamps.

^{*}Letter No. NK/SRC/3097 dated the 26th July, 1972 from Lucas TVS Ltd. to the Chairman, Task Force, CLP Section of the Ministry of Industrial Development.

[†]The Commission has examined data furnished by the Company re: costing, sales etc. of individual items. These data are not being re-produced in the Report.

[‡]Letter dated the 6th March, 1973 from the applicant Company to the Commission.

- 3.29 The Commission enquired from the applicant company why it needs to expand its capacity in respect of headlamps and flashers, items which appear to require less sophisticated technology in production and are also found to be under production by smaller and newer units. The answer was that, from the point of view of marketing and servicing, it is always useful to have a whole line of electrical accessories and this certainly reduces marketing costs. Further, headlamps are a crucial item from the point of view of vehicle safety and small scale producers are not always in a position to produce them to the prescribed specifications. There are important vehicle manufacturers who insist on securing their supply of headlamps from the applicant Company and are not satisfied with the product of any other producer. Flashers are also getting to be sophisticated, and in other countries they are increasingly transistorised. Such developments can only be undertaken by a producer like the present applicant with good R & D facilities and other advantages.
- 3.30 Considering these various points, the Commission thinks that in order to help the development of other producers, specially where the production is less sophisticated in nature, it would not be unreasonable to limit the further expansion of capacity of the applicant company in items like headlamps and flashers. It is not at present producing up to its full capacity in headlamps so there is still some scope for it to increase production to meet the special requirements of certain producers. Regarding flashers, there is a difficulty in that, its present production is actually higher than the sanctioned capacity. It would not however be in appropriate not to permit any large expansion in this item, over and above the already installed capacity. If however the Company undertakes the production of special variety of flashers—transistorised ones—additional capacity may be permitted.

Plant Economies

- 3.31 The applicant company in making the present proposal has claimed to have decided on farming out a number of items and thus pruning its own requirements of additional plant and machinery to a considerable extent. It has however been noticed that the expansion would involve the installation of many machines similar in function as well as capacity to the existing machines; some others would be similar in function though of a somewhat larger capacity. In explanation of these facts, it was pointed out that some of the old machines will have to be replaced as they have been in use for long. Regarding the question why, with a larger capacity envisaged, special purpose machines with larger capacity are not being installed in place of general purpose machines of less capacity, it was explained that this was not always desirable and economical in the Indian context. Not only is the total quantity of output of any one item much smaller in India as compared to elsewhere in the world, but the number of specifications and designs is also so large that production in comparatively small batches is unavoidable. Therefore it is better to have less of special purpose large capacity automatic machinery and more of the other kind. There is also another advantage that the more sophisticated machinery has to be imported while the other type is indigenously available. There is not only a question here of saving foreign exchange at the time of buying the machinery but also the question of maintenance and the obtaining of spare parts which have to be imported in respect of the more sophisticated, special purpose machinery. Preventive maintenance in respect of sophisticated machinery is also more difficult and can lead to frequent breakdowns in our situation. From the point of view of increasing employment, it is also more useful to have less automatic machines. One explanation for the use of a number of similar machines also appears to be that the expansion is proposed to take place in stages.
- 3.32 All these reasons are convincing and probably justify the kind of plant and machinery that is proposed to be installed. However, this reasoning also indicates that no major advantages are likely to be gained by sanctioning a large expansion at one go. If sanctioning a large expansion was expected to result in the establishment of plant and machinery which was of an integrated and large scale character so that its parts could not be broken up into different stages of phased expansion, the choice would have been between permitting such large scale expansion with possible cost savings of a large magnitude or not permitting it, thus leading to economic and technical inefficiency. No such dilemma is present in the present proposal. If expansion is to take place through many stages of installing a number of machines of about the same type and capacity, there is no essential reason to sanction a large expansion at one stage, specially if the expansion is expected to be completed over a period of seven or eight years. The level of technology in such expansion would also not significantly change towards greater sophistication. From that point of view also, therefore, there would be no justification for permitting a large expansion at one stage.
- 3.33 In this connection, the applicant company has also pointed out that it needs to add significantly to its infra-structure facilities so as to provide a more solid base for its operations as well as future expansion. It is therefore proposing to undertake some civil constructions and also the expan-

sion of its R & D facilities. As the applicant company itself has pointed out at various stages, there can never be any thing like a perfect balance between different parts of the capital facilities—whether in terms of land and buildings, R & D facilities, or plant and machinery. The capacity in one or the other may expand a little faster at some stages as compared to others. There is no reasons therefore why the Company should not expand its infrastructure facilities to the extent it finds it necessary even as advance action for the expected increase in other facilities during the Sixth Plan period. No special Government permission is required for investment in civil works and any increase in R & D facilities would actually receive Government's support and assistance.

3.34 What we have said above would also partially meet the other point emphasised by the applicant company, viz., that with the price escalation proceeding at the pace evidenced in the last two years, the cost of expansion may rapidly increase if it is postponed. If the applicant company can find enough finances for taking up the expansion of its civil and R & D facilities, there is no reason why it should not do so in advance of further expansion of plant and machinery. On the other hand, the Company's own proposal of expansion is spread over a period of five or six years and cannot therefore quite escape price escalation in respect of plant and machinery. This cannot be accepted as an argument in support of approving expansion on the scale envisaged by the company.

Quality of production

3.35 An important point in favour of the applicant Company is that the quality of its products is high and no complaints have been received by us in this respect from any vehicle manufacturers. The Company has also developed a sizeable R & D and has utilised it for adapting basic designs obtained from the collaborators to the requirements of the Indian vehicle industry and also for developing import substitution in respect of raw materials that were imported. At the same time, it has been admitted that it has not made any headway in developing products of an exportable quality and design because of the limitations of the domestic market. As a matter of fact, for much of its basic work it continues to rely on the services provided by its foreign collaborators. In this respect, therefore, it cannot be said to have a very significant advantage over other small or newer producers in this field.

Dominance in the Market

3.36 At the same time, we cannot but take note of the predominant position that it enjoys in the production of electrical ancillaries. The collaboration with a world famous producer of electrical accessories as well as its own efforts at systematic product development and quality control have helped the applicant Company to establish a firm foothold in the Indian market. Many vehicle manufacturers are still not ready to accept for OE purposes products produced by other competing producers. This is the reason why many of them continue to have a very low utilisation of their installed capacities and LTVS continues to dominate the market for these items.

3.37 While the predominant position enjoyed by the applicant company is thus at least partly due to its own efforts, this position enables it to operate as a monopolist in respect of its distribution and pricing policies. While its OE sales—which constitute about 90 per cent of the total—are directly handled by it, its replacement sales are handled through two interconnected organisations, viz. M/s. Lucas Indian Services Limited (its wholly owned subsidiary) and M/s. T.V. Sundaram Iyengar & Sons (P) Ltd. It is observed that its list prices are almost as high as permitted by Government—100 per cent above the c.i.f. costs of the corresponding imported items. There is little difference therefore between the applicant company which is much larger in terms of capacity as well as production, and the other producers in this line. An analysis of the data submitted by the Company shows that the difference between the cost price and also price varies from 10 per cent to 34 per cent in respect of different items produced by it. It may also be noted that not only is the mark up over the cost price different from item to item but it also varies significantly as between prices charged for OE supply and those charged in the replacement market. It is true that supplies for OE purpose being ordered in bulk, the price is the result of bargaining and the offer of large discounts on such sales is normal in commercial proctice. But the fact that the margins vary from item to item, and also as between OE and replacement markets is an indication of the discrimination that can be practised by the applicant company because of its predominant position in the market. In items where its position is stronger, it can and does charge higher margins than in others. We are not at this stage examining whether such a price policy is justified and whether comething needs to be done to control such monopolistic pricing. What needs to be emphasised for the present purpose is that such discriminating price policy can be practiced by the applicant

Company only because of its monopolistic position in the market. One effective way of curbing such policies is to encourage the growth of competing producers.

- 3.38 The profitability of the Company which is very high (see data given in Table 26 in Chapter IV) is also to a significant extent due to its monopolistic position. The maintenance of such a position cannot but lead to a continuance of the exploitation of the consumer and the market.
- 3.39 It should also be noted that from the point of view of ensuring maintenance of supplied on a regular basis, it would be useful to develop one or two other major suppliers of these vital items in the vehicle industry. The present position can be hazardous in the event of any special difficulties cropping up and retarding the production in this factory. Such difficulties can bring to a halt the production of a number of vehicle manufacturing units. From this point of view also it is necessary that an atmosphere should be created under which one or two alternative producers for the various items would be established on a stable footing. But this would be difficult if a large expansion is permitted to the Company which may enable it actually to increase its share of the market. A short period of protection may be one of the necessary conditions to enable one or two competing producers to establish themselves.

Exports

- 3.40 An important justification for large scale expansion of a predominant producer like the applicant Company can be that only such expansion would enable it to increase its sales in the export market. The applicant Company has also put forward this as one of the points of justification in favour of its present proposal. It has also indicated in concrete terms that it proposes to increase its exports to about Rs. 40 lakhs immediately and further to Rs. 74 lakhs on reaching full capacity by 1979-80. This however would constitute only a small proportion of its total output. When asked specifically about the kind of export obligation considered feasible, the representatives of the Company indicated that they could not be certain regarding exporting more than five per cent of their output. It needs to be noted that under the recently announced foreign trade policy of the Government of India, a five per cent export obligation has come to be normal for industries in this line. The applicant company therefore is not thinking of doing anything more than what has been made obligatory for all producers of this type.
- 3.41 Both in their written answers and during the public hearing, the representatives of the company pointed out certain major difficulties in the way of developing exports of these items. Exports of existing items are difficult because the designs in demand in India are outdated as far as vehicle production in many other parts of the world is concerned. Moreover, the total quantity of production being small, the costs of production cannot but be significantly high as compared to major producers of such items in the world and exports are therefore uneconomic. A further and major disadvantage is that some of the critical raw materials required for the production of these items are either not produced in India or their costs are far higher than world prices. The most significant example is that of copper which plays an important role in the production of these items. This is also the reason why it is not possible to take up production of particular items on a large scale essentially for the purpose of exports.
- 3.42 In this connection, the role of the foreign collaborator, namely, M/s. Joseph Lucas Industries (U.K.) also needs to be examined. This company holds 60 per cent equity shares of LTVS and nominates half of the Board of Directors. It has already been mentioned that one of the expectations with which this company was granted an industrial licence, favouring it over other applicants, and also permitted favourable terms of foreign collaboration was that at an appropriate stage the Indian unit will be developed as the basis for exports. When the representatives of the foreign collaborator were asked at the public hearing about why much progress has not been achieved in respect of developing exports, their answer was that the focus of attention throughout the period up to now has been on import substitution rather than on export development. *They also pointed out the various difficulties mentioned above. They further explained that many developing countries were setting up plants for the production of such items—exports to them were therefore going to be difficult. They were asked whether it was not possible to think of certain items or components which required proportionately more labour, especially skilled labour, which was available at much cheaper rates in India than in the richer countries of the West. Was it not possible for them to think of developing such lines of production in India for meeting the demands in the richer countries? Their answer was two-fold. Firstly, the technology that they had developed was essentially a labour saving and capi-

^{*}For a further elaboration of their explanation, see Annexure H, where a copy of the letter received by the Commission from them, subsequent to the Public Hearing is provided.

tal intensive technology and therefore could not make much use of the cheaper skilled labour available in India for this purpose. Their own R & D had mainly focussed on labour saving technologies and not on capital saving ones. By and large, albeit with some adaptations, the same technologies were in use in the unit in India. One could not therefore say there can be much saving in cost by producing these items in India. On the otherhand, because of the small quantum of production and the higher costs of materials, the cost of production in India was significantly higher. But they indicated that they had come to appreciate this aspect recently and had undertaken an examination of what items could be economically produced in India for supplying the market in the West. They had been able to indentify a few such items. Joseph Lucas (U.K.) were now contemplating that they would "sacrifice" to a certain extent and off-load production of these items or components in favour of the Indian company, the items being exported to other countries. But the scope for such development was very limited and would not exceed a limit of five per cent of output in terms of value.

3.43 This exposition given by the representatives of the foreign collaborator clearly indicates the limitations of the R & D efforts undertaken by LTVS. There has been little effort at developing production processes adapted to Indian conditions, i.e. labour intensive and capital saving ones. It also indicates that the collaborating company does not see much prospect for developing production of electrical accessory items in India specifically for export purposes, and their Indian counterparts agree. While the reasoning given by them is convincing, especially in regard to the availability of basic materials, it also indicates that export possibilities can hardly be counted as being of any significance in justification of the expansion proposal.

Foreign Collaboration and Technical Know how

3.44 Details about the participation of the Company's foreign collaborator, namely, Joseph Lucas (Industries) Ltd. in the capital etc. have already been given in the earlier discussion. The collaboration agreement further provided that the foreign collaborator would be entitled for payment of royalty of 2% and technical aid fee at 1% on the factory cost of licensed devices produced in the factory. The agreement also provided for payment at 1% on the factory cost towards export royalty on the licensed devices produced by LTVS and exported abroad.

3.45 The net financial effect of the collaboration agreement can be seen from the following figures."*

TABLE 20

		सव	मेव ज	पते						(Rs. lakhs)
nich foreign colla	abora	ation s	tarted				•		•	1-10-1962
f foreign capital			•							164.40@
onus shares issue	d to	collab	orators							Nil
oaid upto Now (31-12	2-72) (Gross)							126.70
aid@@ till 31-1	2-72	(Gross	s)							82.60
4+5)										209.30
cent of (2) .		•								127.31
ue upto 31-12-72	2.									77.94
$\%$ of sales \cdot		•								1.36
% of item 6	•	•			•		•			37.24
	f foreign capital onus shares issue aid upto Now (said@@ till 31-14+5)	f foreign capital conus shares issued to baid upto Now (31-12-72 4+5)	f foreign capital	onus shares issued to collaborators aid upto Now (31-12-72) (Gross) aid@@ till 31-12-72 (Gross) (4+5)	f foreign capital	nich foreign collaboration started f foreign capital onus shares issued to collaborators aid upto Now (31-12-72) (Gross) aid@@ till 31-12-72 (Gross) 4+5) cent of (2) ue upto 31-12-72 % of sales				

3.46 It will be seen that within a period of about 7 years—the company actually went into appropriate production only in 1965—the cost of foreign collaboration in terms of gross dividends paid and royalties has exceeded the total capital contributed by the collaborators by over 25 per cent. As regards the utility of foreign collaboration for developing exports it will be seen that exports have constituted on 1.36 per cent out of the total sales effected. It is true that, with the devaluation of the rupee in terms of Pound/Sterling and after deducting Indian Income-tax, the net foreign exchange payment is lower and the receipts of the collaborators on their capital investment are not very high (see table 21).

^{*}LTVS letter to the Commission dated 5th February, 1973.

[@]Rs. 161.40 lacs paid up as on 31-12-1972.

^{@@}Including technical Aid Fee.

- 3.47 The technical aid and royalty agreement with Joseph Lucas (Industries) Limited, U.K. expired on 1-10-1972. The Company had applied for renewal of the agreement for a further period of five years. The Government of India, Ministry of Industrial Development (vide its letter dated the 5th February, 1972) has agreed to the renewal of collaboration for five years from the date of its expiry on the terms and conditions stated below:—
 - (a) Royalty @ 3% subject to Indian Taxes shall be payable to the foreign collaborators on exports only. The royalty will be computable on the ex-factory cost of the products minus the landed cost of imported components, irrespective of the source of procurement, including ocean freight insurance, custom duties, etc.
 - (b) No royalty shall be paid to the foreign collaborators on internal sales.
 - (c) No further extension of the collaboration will be agreed to under any circumstances.
 - (d) The Indian Company shall be free to sub-licence the technical know-how/product design/engineering design under the agreement to another Indian company should it become necessary. The terms of such sub-licensing shall however be as mutually agreed to by all the parties concerned including the foreign collaborators and shall be subject to the approval of Government.
 - (e) Exports shall be permitted to all countries except where the foreign collaborators have existing arrangements for manufacture of the articles.
 - (f) The agreement shall be governed by the laws of India.

TABLE 21

Returns from Lucas-TVS to Foreign Collaborators

Investment in India in £ Sterling by Joseph Lucas (Industries) Limited.

Chill.	Rs. in lakhs	Exchange Rate	£ 000's
Plant and machinery upto 31-3-1966	120.00	Rs. 13.33 per £	900.22
Plant and Machinery April 1966 to March 1966.	18.00	Rs. 21.00 per £	85.71
Investment in Lucas Indian Service Limited .	14.40	Rs. 18.00 per £	80.00
	*152.40		1065.93

^{*}Value of shareholding of Joseph Lucas (Industries) in Lucas-TVS as per audited Balance Sheet as at 31-3-1972.

B. Return:

		Gross Amount Rupees	Tax deducted in lakhs	Net remit- tance Rs. in lakhs	£000's
1.	Dividend upto 31-3-72	126.70	25.73	100.97	550.45
2.	Royalty remitted upto 31-7-72 (as per collaboration/agreement)	55.13	27.59	27.54	150.58
3.	Technical Aid Fee Remitted upto 31-7-72 for technical services rendered by Collaborator .	27.45	0.96	26.49	144.85
	-	209.28	54.28	155.00	845.88

- 3.48 The company has not agreed to the new conditions regarding foreign collaboration suggested by the Government of India. It has been proposed that the terms should be reconsidered "in view of the benefits which will be derived from the continued close technical co-operation between this company and its collaborators."* It has been specifically pointed out that "the services and assistance provided by the Lucas Design and Production Engineering groups........ will be of considerable help in furthering the ability of this company to keep abreast of the requirements of the Indian automobile industry and also to develop its exports in the face of constantly increasing world-wide competition. Also this service and assistance will continue to reduce the need to import components and materials; improve the performance reliability and contribution to safety which our products make; and help us to obtain a better use of available materials thus minimising cost".
- 3.49 The collaborators have, therefore, proposed that regarding the products covered by the original licence which were introduced late in the ten year period, they should continue to get royalty at the original prescribed rate for a period of ten years from the time the design was introduced, and further that royalty should be paid on new designs introduced after 1972 at the rate of two per cent for internal sales and three per cent on exports. The priod for such payments, however, may be confined to seven years instead of ten. It is further suggested that an annual technical fee at one per cent on factory cost of any designs introduced in India under both the original and the renewed licence agreements should be paid and that this should continue for a period of seven years at the end of which the position might be reviewed.
 - 3.50 'LTVS' has supported this proposal in the following words:
 - "This company needs to keep abreast of the requirements of the Indian automobile industry and to export directly its own goods which makes it essential that it keeps its designs and production technique up-to-date. Whilst we are doing design and development work of our own in Madras, we nevertheless feel that it is essential to the continued satisfactory progress of the company that it has full access to the extensive engineering research and development programmes carried out by our collaborators—it should be noted that their published accounts showed an expenditure running at a rate of £ 12½ million p.a. It is also considered that in the light of our experience over the last ten years it will be necessary from time to time to call on specialised assistance from our collaborators—particularly when new processes are involved. Our collaborators have also undertaken extensive training of employees of the company at their expense and we wish to continue to enjoy this benefit. Our collaborators, therefore, consider that an annual technical fee to pay for their support would be appropriate—the fee would go towards paying for the day-to-day expenses of supporting the company with a continual supply of technical information and also make a contribution to the Group expenditure on research and development—the benefits of which are freely made available to this company".
- 3.51 While the competent authorities will certainly view this whole problem in accordance with the overall policy of Government regarding foreign collaborations, the Commission cannot avoid considering this matter as it vitally affects the balance of advantages and disadvantages which are to be taken into account in examining the present proposal. In this connection, it has to be noted that foreign collaboration appears to have been accepted by the Government as necessary at least initially in the field of auto vehicle electrical parts. The other producers in the field have also had foreign collaboration agreements and they have also requested for their renewal. The only exception to this is M/s. Best & Company who had a foreign collaboration to begin with but this ended in 1969 and has not since been renewed. It is, however, necessary to note that the products produced by Best & Company do not appear to enjoy adequate acceptance in the market, the result being that their capacity is much under utilised.
- 3.52 We have already indicated earlier that the applicant company has succeeded in establishing high quality production of the items it is producing and these enjoy a good reputation both for OE and replacement purposes. They have also attained good success in terms of import substitution. From these two points of view, the assistance provided to the 'LTVS' by the foreign collaborator must obviously have been of much use to them. At the same time as we have already seen, the exceptation that collaboration with a major concern in this field would help build up exports has not only not materialised but there also seems to be little prospect of this happening on any significant scale in the future. It also appears that continuance of foreign collaboration has resulted in the adoption by the Company of production techniques and processes which are not necessarily the most appropriate ones if cognisance was taken of the availability of cheaper skilled labour in India as compared to capital. The respresentatives of the foreign collaborator pointed out at the public hearing

^{*}Letter from the 'LTVS' to the Government of India, Min. of Heavy Industry No. S. 22/NK/TKC dated 7-5-1973.

that production could not be developed in India for export on the ground that skilled labour was cheaper in India, because the production processes adopted here were largely copied from the processes developed by them to suit the British conditions. It is well known that continued dependence on foreign collaboration always makes it less worthwhile to develop indigenous R & D adequately. While the Company has made some commendable efforts in this direction, it is not unlikely that as long as an elaborate arrangement for foreign collaboration continues, there would be less incentive to build up a vigorous R & D unit.

- 3.53. The plea that foreign collaboration is necessary because the collaborators spend very large resources on R & D which cannot be matched by the Indian company would have been convincing if the Indian automobile industry was developing rapidly and changing its designs at a pace where continuous innovations and improvements for meeting these were essential. As it is, the vehicle industry in India is continuing with the same designs for a prolonged period. As a matter of fact, the applicant Company has pointed out that one of the reasons why the items produced by it cannot find an export market is that the designs appropriate for fitment in Indian vehicles are far outdated in terms of what is prevalent in foreign markets. It would not, therefore, be unreasonable to suggest that whatever learning was essential for the adoption and adaptation of the designs produced by the foreign collaborators to suit the Indian market would have been adequately done in the course of the initial collaboration agreement. Any minor assistance required should surely be available to 'LTVS' from a company which holds a large part of its equity capital. In case specific assistance is required because of some new requirements—e.g., a new vehicle design being introduced and requiring some special type of accessory which 'LTVS' cannot itself design—it should be possible to arrange for the payment of a specific fee on the merits of the case. In case the scrutiny of export possibilities suggests to the collaborating company that certain items can be economically produced in India for the world market, and the introduction of such production requires special assistance to 'LTVS', this can be looked at favourably at that time. But except for such special considerations which may arise in the future, the requirements of the applicant Company as at present or for the contemplated expansion does not appear to justify the continuance of foreign collaboration on any elaborate basis. The Commission therefore does not think it necessary that extension of collaboration should be favouraly considered by Government especially on the terms now suggested by the Company. Such extension would also weaken the case of the Company regarding the present application as the competitive disadvantage of the other producers would thereby be increased.
- 3.54 One of the disadvantages that arises out of the present situation is that the trade name 'Lucas' gives a certain special advantage to the applicant Company in the retail market. This special advantage is of course enjoyed by a number of Indian producers, especially in the automobile accessories industry, who use foreign brand names which are well known. We think that this practice should be discouraged and that only local brand names should be used in the Indian market so as to stop such a special advantage being obtained by foreign or foreign associated companies. A further disadvantage arising out of this practice is that the use of ISI marks is not considered necessary. Though the applicant Company has been participating in the relevant groups of the Indian Standards Institution, it has not yet adopted the ISI mark for any of its products. We think that this is not quite appropriate.

Ancillary Development

- 3.55 The applicant Company has claimed that it intends to vigorously pursue its policy of ancillary development as part of its expansion scheme. The expansion will enable the Company to create additional markets for small scale units and generate self-employment for graduate engineers and other technically qualified personnel. This has been claimed as one of the grounds on which the expansion proposal may be approved.
- 3.56 It has already been pointed out earlier that in terms of the total brought out component and farming out operations, the proportion given to sub-contractors who can be specifically classified as small scale producers is as small as 6.4 per cent. It was also observed that none of these sub-contractors are registered as ancillary suppliers and there are no specific agreements regarding such supplies. While we find that the Company's claims that certain special assistance is made available to small scale producers is valid, it appears to the Commission that much more could be done by the applicant Company for the development of ancillary units on a systematic basis than has been done in the past. Even now about 53 per cent of the components are manufactured under the Company's own roof. This certainly can be decreased.

CHAPTER IV

SCHEME OF FINANCE

4.1 According to the information supplied by the Company, requirements for fixed and working capital during the projected period will be as under:—

TABLE 22

Rs./lakhs

Year endin	g						94	Capital Outlay	Working Capital (net increase)	Total
31-3-1973 .			•	•		•	•	71	33	104
31-3-1974 .	•							81	70	151
31-3-1975 .								68	68	136
31-3-1976 .								70	98	168
31-3-1977 .								55	38	93
31-3-1978 .	•							53	89	142
31-3-1979 .	•					·	•	33	52	85
31-3-1980 .					·	 TIMES.		8	23	31
31-3-1981 .	•	•	•	•	•			•••	14	14
				Тот	AL			368	452	820

Note: Figures for 1973 in Tables 22, 23 and 24 have been given to show the trend, although they do not relate to project period.

Source of Funds

4.2 As per the Cash Flow Statement submitted by the Company, the required funds will be available from the following sources:

TABLE 23

	31-3-73	31-3-74	31-3-75	31-3-76	31-3-77	31-3-78	7 9	80	81
Profit before payment of int- erest but after depreciation	268	278	286	302	325	376	428	432	460
Less						0.0			100
Interest	31	36	42	48	52	58	65	72	80
Dev. Rebate .	7	10							
Taxation .	154	155	161	168	182	212	242	240	253
Dividend .	41	41	41	41	41	41	41	41	41
Retained Profit	35	36	42	45	50	65	80	79	86
Depreciation .	42	44	45	51	51	51	48	43	38
Dev. Rebate .	7	10			• •	• •	• •		

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TABLE 23—Contd.

	31-3-73	31-3-74	31-3-75	31-3-76	31-3-77	31-3-78	79	80	81
Total funds available from internal gener-							· · · · ·		
ation .	84	90	87	96	101	116	128	122	124
Add:								-	
Share issue .	12						• •		
Increase in Bank Borrow- ing	5	36	34	62		14	• •		
Increase in Liability for deferred payment.	17	11			••	••	••		••
Increase in current liabilities provision	6	14	27	22	16	17	12	27	18
Total .	124	151	148	180	117 -	147	140	149	142

Use of Funds

4.3 The funds generated internally and procured from outside sources are proposed to be used as under:

TABLE 24

(Rs./lakhs)

	31-3-73	31-3-74	31-3-75	31-3-76	31-3-77	31-3-78	31-3-79	31-3-80	31-3-81
Capital Expenditure	71	81	68	70	55	54	33	8	
Increase in working capital .	43	70	68	98	48	89	78	82	78
TOTAL .	114	151	136	168	103	143	111	90	78
Increase in def- erred liability			12	12	4	4	3		
Decrease in Bank Borrowings .	10				10		26	59	64
-	124	151	148	180	117	147	140	149	142

Analysis of Internal Generation of Funds Past performance of the Company

4.4 Internal generation during the last five years can be summarised as below:—

TABLE 25

										Rs./Lakhs
				•	31	-3-1968	31-3-1969 31	-3-1970	31-3-1971	31-3-1972
Profit before pay depreciation	men	t of in	iterest	but a	fter ·	122	156	154	234	211
Less:		,								
Interest .						19	15	16	22	22
Dev. Rebate	• •	•				5	12	10	6	- 11
Taxation .			•		•	40	69	77	122	127
Dividend .			•	•		36	52	39	39	39
Retained Profit		•				22	8	12	45	12
Add:					-	WEEL STATES	^			
Depreciation		•			63	26	28	39	36	56
Dev. Rebate		:	•	•	6	5	12	10	6	11
Total funds ava	ilable	e fron	n inte	rnal g	ene-	53	48	61	87	79

Profitability in the Past

4.5 Percentage of Gross Profit to Sales, Cost of Sales and Capital employed are given below:

TABLE 26

Rs./lakhs 31-3-68 31-3-69 31-3-70 31-3-71 31-3-72 514 638 684 920 1016 Sales 530 392 482 686 805 Cost of Sales Gross Profit (before interest development 122 rebate & Taxes) 156 154 234 211 -Percentages-Percentage of Gross Profit to 23.7 24.4 22.5 25.4 20.8 (i) Sales 32.4 29.1 31.1 34.1 (ii) Cost of Sales 26.2 (iii) Total Capital employed 22.1 26.9 22.3 29.9 25.7

^{4.6} The above figures will show that the gross profit (before interest, development rebate and taxes) to sales during the last five years ranged between 20.8% to 25.4%. Percentage of the Gross profit on total capital employed ranged from 22.1% to 29.9%. Thus, percentage of gross profit to sales and total capital employed were quite high in the past.

Future Projections

Increase in Sales

4.7 Actual sales during the past five years, projected sales for the future and the percentage increase over the previous year are indicated below:—

TABLE 27

	Year ending	Sales Rs. in/lakhs	Percent- age incre- ase over prev. year
Actuals	31-3-68	514	
	31-3-69	638	24.8
	31-3-70	684	7.2
	31-3-71	920	34.5
	31-3-72	1016	10.4

	Year ending	Sales Rs. in/lakhs	Percentage of increase over prev. year
Projections	31-3-73	1157	13.8
·	31-3-74	1264	9.2
	31-3-75	1399	10.7
	31-3-76	1542	10.2
	31-3-77	1729	11.2
	31-3- 78	1988	11.5
	31-3- 79	2252	11.3
*	31-3- 80	2364	10.5
	31-3-81	2515	10.6

^{4.8} These data show that the actual increase has been rather erratic in the past; the future projections regarding sales do not appear to be unreasonable on the assumptions made regarding demand and capacity applied for.

4.9 The amounts expected to be available from internal generation during 1972-73 to 1980-81 are given in Table No. 23 (Sources of Funds). Percentage of gross profit to sales, cost of sales and total capital employed works out as under:—

ГΔ	RI	E	98

	31.3 1973	31.3 1974	31.3 1975	31.3 1976	31.3 1977	31.3 1978	31.3 1979	31.3 1980	31.3 1981
Sales Less cost of Sales: Gross Profit (before interest, Dev. Rebate—	1157 889	1264 986	1399 1113	1542 1240	1729 1404	1988 1612	2252 1824	2364 1932	2515 2055
Taxes)	268	278	286	302	325	376	428	432	460
Percentage of Gross Profit to: (i) Sales (ii) Cost of Sales	22.1 30.1	21.9 28.1	20.4 25.6	19.5 24.3	18.8 23.2	18.9 23.3	19.0 23.5	18.3 22.4	18.3 22.4
(iii) Total capital employed .	30.4	28.5	27.5	26.6	27.8	30.2	33.1	32.9	34.4

Note: Cost of sales includes the amount to be paid as bonus and provision for gratuity. During the year 1980-81 a sum of Rs. 50.00 lakhs +Rs. 14.46 lakhs on account of bonus and provision for gratuity has been included. Separate figures for other years are not available. If these are excluded from the costs, gross profits over all the years will increase and percentage of gross profit to sales cost of sales and total capital employed will also increase for these years.)

- 4.10 An analysis of these projections indicates that the gross profit on sales is expected to decline—but only a little. From about 23 or 24% in the past it is expected to gradually decline to about 18 or 19% by 1980 and 1981. Profitability in terms of capital employed, on the other hand, is actually expected to increase from 25 or 26% in the past to 33 or 34% by 1980 & 1981. One reason for this is that the capital employed is expected to be more effectively utilised through a higher turnover as compared to the past.
- 4.11 The fact that the Company expects to rely, not only on a high degree of profitability which is a reflection of its predominant position in this line of production but also on its ability to pursue discriminating prices so as to maximise its profits it is indicated by its projections about profitability on the different items, both those which are proposed for expansion and those in which its capacity is expected to remain unchanged. Analysis of the data submitted by the Company suggests that the margin would vary from item to item and this variation, one may suspect, is very much related to the degree of dominance and the resulting elasticity of demand faced by the Company in respect of the different items. It is thus clear that the applicant company also assumes that, as a result of the expansion that it is proposing, its ability to maximise its profit will continue unimpaired and, on this basis, it will be able to finance the proposed expansion from its own internal resources. The fact that it is obtaining in respect of service activities as high a profit as 44.5% on sales (1972-73) and its expectation that on this side it will continue to obtain a high rate of profit. namely 39.6% in 1980-81 also shows the same approach.
- 4.12 It must be pointed out that the Commission has two objections to the scheme of finance as proposed by the Company. Firstly, it is observed that the capital expenditure proposed for the expansion scheme is to be incurred over a period of seven years (see table 29 for details). Out of this about 60% is proposed to be incurred in the first three years, another 30% in the next two years and the reminder in the last two years. It is only such a long period phasing of the capital expenditure which makes it possible for the Company to suggest that the cost of expansion can be entirely met from the internal resources of the Company. If the degree of expansion asked for by the Company was urgently necessary, it would have been appropriate to complete it in a much shorter period. We wonder whether the spreading out of this expenditure over a long period is not deliberate so as to avoid having recourse to outside finance which, it may be feared, may lead to a suggestion for diluting the present closely held equity ownership of the Company. The Commission obviously can have no sympathy for such an approach.

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- 4.13 Secondly, the possibility of generating adequate funds to meet the expansion requirements is based entirely on the Company's expectation that it will be able to maintain profitability at the very high rate that it has enjoyed in the past. An expansion based on such expectation by a Company which already predominates the market cannot but arouse misgivings. The only way in which the undue profitability that is enjoyed by the Company at present can be reduced—leaving aside the possibility of price control—is through encouraging some effective competition. It is only then that the Company will be forced to pass on some part of the benefits enjoyed by it to the consumer. The examination of the Scheme of Finance therefore suggests that it would be appropriate for the commission to make recommendations which will reduce the pre-dominance of the Company in some manner or the other.
- 4.14 The Commission has no other comments to offer on the Scheme of Finance as such. But the Commission is making recommendations which suggest an expansion of a magnitude much smaller than that proposed by the Company. It is also the Commission's hope that as a result of this as well as the efforts of competing producers, some degree of effective competition will develop in this line of production in the course of the next few years. If this happens, the profitability of the Company cannot but be adversely affected. On the other hand, if the Company continues to enjoy the present degree of predominance, it may be necessary for Government to examine whether some special steps should not be taken to prevent the exploitation by the Company of its position in the market. In either case, it will be appropriate for the Company to work out a revised scheme of finance for the proposed expansion, which will reduce the reliance on internal generation of funds and provide for a part of the requirement being met from outside financial sources. Such a revised scheme would also enable new equity to be issued. How such a new issue should be used to bring about a change in the ownership structure of the Company, we shall recommend in our conclusions.

TABLE 29

Phased programme of Capital expenditure for the proposed expansion by LUCAS-TVS LTD

									Rs./Lakhs
	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	Total	% to Total
Production Plant	38 (27.2)	27 (19.3)	38 (27.1)	21 (15.0)	$\frac{13}{(9.3)}$	$\frac{3}{(2.1)}$	• •	~140 (100.0)	38.0
Infra-structure	$ \begin{array}{c} 21 \\ (19.0) \end{array} $	15 (13.6)	$\frac{22}{(20.0)}$	$15 \\ (13.6)$	$\frac{20}{(18.3)}$	17 (15.5)	••	110 (100.0)	29.9
Building .	15 (21.7)	18 (26.2)	••	15 (21.7)	$\frac{15}{(21.7)}$	$\frac{6}{(8.7)}$	• •	69 (100.0)	18.8
Replacement Plant	$\begin{pmatrix} 4 \\ (22.2) \end{pmatrix}$	$5 \\ (27.8)$	$\begin{matrix} 6 \\ (33.3) \end{matrix}$	• •	(5.6)	$\frac{2}{(11.1)}$	• •	18 (100.0)	4.9
Furniture .	(9.7)	(9.7)	$ \begin{array}{c} 4 \\ (12.9) \end{array} $	(12.9)	(12.9)	5 (16.0)	$\begin{matrix} 8 \\ (25.9) \end{matrix}$	31 (100.0)	8.4
TOTAL .	81 (22.0)	68 (18.5)	70 (19.0)	55 (15.0)	53 (14.4)	33 (9.0)	8 (2.1)	368 (100)	100.0

Figures in brackets are percentages to total.

Source: The Applicant Company.

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CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

- 5.1 Our examination of the expected demand for the items under consideration indicates that the demand by the end of the Fifth Five Year Plan is likely to be much less than that projected by the applicant Company. We do not think it appropriate at this state to consider the prospects for demand in 1980-81 as suggested by LTVS. This is partly because there are no data at present which could indicate, on any firm basis, what the demand is likely to be during the Sixth Plan period. Moreover, it does not appear as if the gestation period for expansion projects in this industry is so long that estimating the demands for eight years ahead is essential for undertaking expansion of capacity. In our view, the gestation period need not be assumed to be longer than three years. It would therefore be adequate if at the moment we think of expansion only for the purpose of meeting the requirements by the end of the Fifth Five Year Plan. For meeting the requirements of the Sixth Five Year Plan, the Company may well come up with a proposal again after three years or so by which time it should have completed the present expansion to a substantial extent. There will be time enough then for the further expansion to be considered and the capacity increase under taken in good time for satisfying the requirements of the Sixth Plan. Such an approach would also provide a measure of protection to the other units in the industry which in our view will be useful.
- 5.2 The Commission considers this last point to be of much importance in view of the very large share which LTVS enjoys at present, both in the capacity and in the actual output of the items under consideration. It enjoys a predominent and monopoly position in respect of four of these items while it is recognised that by maintaining high quality standards, it has substantially contributed to establishing this dominance in the market, our examination also shows that this position has not resulted in other advantages to the economy such as lower prices to the consumer or development of exports. Even the R & D effort of the applicant company is not exceptionally good. There is enough data also to indicate that the company is today able to exploit its monopolistic position in the market. It is therefore highly desirable that an atmosphere is created in which some competition to it can be effectively developed.
- 5.3 The expansion proposed by the applicant company is quite large. In view of our estimate regarding the somewhat moderate increase in demand that may be expected by the end of the Fifth Five Year Plan, we apprehend that if the company's proposal is accepted, its competitors, whose position is not very strong, will face difficulty. They may well find it impossible to survive. For the reasons we have already indicated, it is our view that it would not be desirable to allow competition to be destroyed in this industry. Both for checking the monopoly position of the company and also to reduce the dependence of the national vehicle industry on one unit for a vital supply like electric accessories, it will be useful to enable the potentially capable units among the competitors to come up. This may be possible if the expansion of the applicant company is limited to a reasonable capacity so that some scope is left for one or two other units to come up to economically viable sizes of output. Our examination of the company's proposal also suggests that permitting expansion of the size asked for is not likely to lead to any significant advantages in terms of economies of scale, in reducing costs of production or future development of exports on a significant scale. We therefore do not think it necessary to recommend expansion of the magnitude requested by the Company.
- 5.4 It will be recalled that in its application to Task Force of the Ministry of Industrial Development, the Company had indicated a certain capacity as one which it could establish with the maximum utilisation of the plant and machinery available with it. Only some minor additions of equipment were said to be necessary for achieving this output. The company had also indicated at that time that, in their view, expansion to this size would be adequate to take care of demand as they foresaw it in the near future. In the evidence before the Commission, the Company pointed out that the assumption that this output could actually be reached by full utilisation of their existing plant and equipment was unrealistic, in that it would require working of the plant and equipment for such long hours as to make such working uneconomical. It was also pointed out that some additional plant and equipment was also necessary because the existing plant and equipment had become old and replacement will be necessary. It is our view that the capacity that the Company suggested on this basis is what should be appropriately sanctioned to it at this

stage. The present sanctioned capacity, sanctioned on the basis of the recommendations of the Task Force, the Company has already installed. The additional capacity suggested by us will give the Company some scope for expansion and will also enable it to keep progressing further and obtaining a legitimate share of the market till the end of the Fifth Plan. There should be no objection to the Company's coming up again in 1976 for a further phase of expansion to cover the requirements of the Sixth Plan.

- 5.5 The only modification that we would suggest in this would be in respect of the item Headlamps. We have already indicated the reason why we think that this item need not be developed by the applicant Company to the same extent as the other items, smaller units having good scope to come up in this industry. The main difficulty of the small scale units appears to be one regarding imported glass. If this is sorted out, there is no reason why they should not be in a position to satisfy a substantial part of the additional demand. At the same time, we appreciate that there are certain key manufacturers (including Defence) who find supplies from LTVS essential to meet their needs. We therefore would limit the expansion in respect of this item to a capacity of 2,00,000 Nos.
- 5.6 Regarding the continuance of foreign collaboration, the matter is already receiving Government's attention. Our examination of the problem suggests that the proposal made by Government regarding the continuance of foreign collaboration is eminently reasonable and no modification in the proposal appears to be necessary.
- 5.7 One of the reasons why the expansion of the company even in future may be considered in some ways to be not to public advantage is that it is a very closely held company, 60% of its equity being held by the foreign collaborating company and 40% in the last resort by one family. In connection with an expansion proposal of Lucas Indian Service Private Limited, a subsidiary of LTVS, the Government had laid down a condition that the equity hold by the foreign collaborating company should be reduced from 60% to 51%. We do not know whether this condition will be agreed to as, in the meanwhile, a proposal has been mooted for merger of LTVS and Lucas Indian Service. The Government has yet to make up its mind about this proposal.
- 5.8 At the public hearing, the Commission had pointed out that it may be necessary to bring about a change in the equity ownership of the company so as to introduce an element of outside ownership. Further it was emphasised that if the Company continued to have majority non-resident shareholding, expansion was permissible only if 60% of the additional production could be exported. For reasons already mentioned earlier, neither LTVS nor the foreign collaborators were able to hold out any assurance of exports on this scale. The Commission therefore asked both the Groups holding equity in LTVS at the moment, viz., M/s. Joseph Lucas 'UK' and the TVS Group what they proposed by way of reducing their equity holdings. The representatives of M/s. Lucas requested for time so that they could consult their Board and indicate to the Commission their approach. They have done this by a letter dated 15th May, 1973 (See Annexure H). In this letter they have stated that while it is their view that their 60% equity should be allowed to continue, in view of the "stated requirement of the Indian Government to reduce foreign shareholding," they were "prepared to discuss reducing our equity from 60% to 55%". They propose to make "this reduction progressively by the issue of shares to other parties in line with the expenditure on planned expansion and the volume of business obtained but ensuring that our equity falls to 55% by the end of five years."
- 5.9 It is our view that as neither M/s. LTVS nor M/s. Joseph Lucas (UK) think it practicable to accept 60% export obligation on the expansion in the capcity of LTVS, it would only be appropriate that the company is converted from a foreign majority company to a foreign minority company. We would therefore suggest that, as we are recommending a certain expansion of capacity, the original intention of bringing the foreign equity holding down to a reasonable level should be carried out at this stage. We therefore recommend that the equity held by M/s. Joseph Lucas should be brought down to 45%. Simultaneously, it would be appropriate to insist that the TVS Group should reduce its equity holdings in the company from 40% to 30%. This would release 25% of the equity of the company for subscription by outsiders. The best course to bring about this change effectively would be to issue fresh equity of an appropriate amount within the next two years. In order to ensure that the closed nature of the company is effectively changed as a result of this proposal in spite of the outside equity not constituting a large proportion, it would be worthwhile to insist that this equity should be offered in the first instance to financial institutions in the public sector designated by the Central Government. The institutions may belong to the Central Government or to the State Government or both. It should also be insisted upon that the outside shareholders should have representation on the Board of the company and appropriate changes may be made in its Articles of Association to ensure this.

- 5.10 The above recommendations have been made on the assumption that the Company is not in a position to undertake any major export obligation. The Commission was informed at the public hearing that the possibility of taking up certain items specifically for export purposes is under examination. If it is found that a sufficient number of such items can be located and their production established, capacity for such production can be established over and above what is recommended above. Obviously, in terms of value such additional output should be exported almost 100%.
 - 5.11 To conclude, our recommendations are as under:
- (1) Expansion of capacity should be permitted as follows for meeting the requirements of the Fifth Five Year Plan:—

Items					Final capacity after expansion
Starters .	•	•			1,85,000
Generators		•	•		1,95,000
Regulators			•		2,50,000
Headlamps			•		2,00,000
Flashers .				•	1,02,000

- (2) This expansion should be subject to the condition that the Company and its present equity holders agree that the equity held by M/s. Joseph Lucas Industries of U.K. will be reduced to 45 % and the equity held by the TVS Group will be reduced to 30% of the total and the balance, viz. 25% is issued in the first instance in preference to public financial institutions designated by the Central Government. This change in the equity structure should be effected within two years from the date of approval.
- (3) Necessary changes will be made in the Articles of Association to provide that outside shareholders like financial institutions holding equity in the company will have representation on the Board.
- (4) If the company shows willingness to undertake a substantial export obligation, additional capacities for export purposes may be permitted.
 - (Sd.) (D. SUBRAMANIAN)

 Member

New Delhi, The 24th May, 1973 (Sd.) (H. K. PARANJAPE)

Member

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Annexure 'C'

Manufacturing Concerns which raised objections

Large Scale Units

- M/s. Globe Auto Electricals Ltd., Lal Bahadur Shastri Marg, Mulund, Bombay.
- M/s. Prestolite of India Ltd., 16/4, Main Mathura Road, Faridabad.
- 3. M/s. Best & Company, 13/15, North Beach Road, Madras-1.
- 4. M/s. J.M.A. Industries Pvt. Ltd., 8, Padmini Enclave, Hauz Khas, New Delhi.

Small Scale Units

- M/s. Light Engineering Enterprises, 1013, Co-operative Industrial Estate, Kanpur.
- 2. M/s. Neo Metal and Electrical Industries (Pvt.) Ltd., Udhna Udhyog Nagar, Udhna, Gujarat.
- 3. Hem Electric Mfg. Co. (Pvt.) Ltd., Industrial Estate, Varanasi-2.
- 4. Rajasthan Iron & Steel Works (Automobiles), Brahampuri, Jaipur-1.
- 5. Globe Auto Industries, B/85-86, Mayapuri Industrial Area, New Delhi.
- Elite Auto Industries,
 54-A, Andheri Kurla Road,
 Andheri East,
 Bombay-69 AS.

ANNEXURE 'D'

Statement Showing Licensed Capacity and Production of Starters, Generators, Regulators, Flashers and Headlamps by units registered with D.G.T.D. during 1967-68 to 1970-71.

		during 1967-6	during 1967-68 to 1970-71.				
Si.	Name and address of the existing firms	Items of	Licensed		Production	tion	
OZ		manu- facture	Capa- city	1967-68	1968-69	1969-70	1970-71
	2	3	4	. 5	9	7	8
1. M/s.	1. M/s. Lucas TVS Ltd., 37, Mount Road, Madras .	Starter	Nos. 1,37,000	(8,529	80,020	86,923	1,07,164
2. M/s. (W),	M/s. Globe Auto Electrical Ltd., Agra Road, Mulund (W), Bombay.	6	,, 35,000	5,687	10,942	14,123	13,119
3. Best Mad	3. Best & Co. Pvt. Ltd., 13/15, North Beach Road, Madras.		,, 48,000	7,158	6,028	10,984	10,203
4. M/s. rack	4. M/s. Orient General Industries (P) Ltd., 111/1, Barrackpore Trunk Road, Calcutta.	र्थ स्थमेव ज	,, 12,000	13,207	5,450	7,982	11,212
l. M/s.	1. M/s. Lucas TVS Ltd., 37, Mount Road, Madras .	Generator	Nos 1,34,000	63,867	78,767	900'98	1,02,530
2. M/s. Mul	2. M/s. Globe Auto Electricals Ltd., Agra Road, Mulund (West), Bombay.	66	,, 40,000	13,235	19,545	19,530	14,962
3. M/s. Bes Madras.	3. M/s. Best & Co. (P) Ltd., 13/15, North Beach Road, Madras.	66	,, 48,000	2,902	1,828	7,433	3,907
4. M/s. Barr	4. M/s. Orient General Industries Pvt. 111/1, Barrackpore Trunk Road, Calcutta.		,, 24,000	12,933	18,014	8,782	13,135
1. M/s.	1. M/s. Lucas TVS Ltd., 37, Mount Road, Madras	Voltage Regulator	Nos. 2,03,000) 77,401	1,04,080	1,29,916	1,59,222
2. M/s. Mul	2. M/s. Globe Auto Electricals Ltd., Agra Road, Mulund (West), Bombay.	â	,, 40,000) 262	1,686	2,549	3,556
3. M/s. Mac	3. M/s. Best & Co. Pvt. Ltd., 13/15, North Beach Road, Madras.	\$,, 48,000	:	:	230	2,767

ANNEXURE D-Contd.

1 2	3		4	5	9	7	8
4. M/s. Orient General Industries (P) Ltd., 111/1, Barrackpore Trunk Road, Calcutta.	Voltage Regulator	Nos.	60,000	12,917	16,982	13,970	10,570
5. M/s. Prestolite of India Ltd., Main Mathura Road, Faridabad.	"		20,000	46,984	66,200	38,512	65,319
l. M/s. Prestolite of India Ltd., Main Mathura Road, Faridabad.	Headlamps		50,000	13,345	20,333	13,557	13,783
2. Racmann Koshatinn (Regd.), 53, Industrial Area, Najafgarh Rd., N. Delhi (New Racmann Auto Pvt. Ltd.).	<u>।</u>		2,00,000	1,18,994	1,22,700	1,97,075	15,900
3. M/s. Lucas-TVS Ltd., 37, Mount Road, Madras	यमबू		1,54,000	1,00,082	1,35,540	1,19,429	1.39.963
4. M/s. JMA Industries Pvt. Ltd., 8, Padmini Enclave Hauz Khas P.O. Yusuf Sarai, New Delhi.	नयूने	I	1,80,000	1,39,946	1,64,473	1,85,849	1,99,963
5. T.I. Miller Ltd., Ambatur, Madras-53 .	:	\$	60,000	13,871	18,834	23,915	12,090
 M/s. J.M.A. Industries Pvt. Ltd., 8, Padmini Enclave Hauz Khas P.O. Yusuf Sarai, New Delhi. 	Flasher Unit	Nos.	5,40,000	73,606	90,229	1,09,425	1,15,514
2. M/s. Prestolite of India Ltd., Main Mathura Road, Faridabad.		6	25,000	21,073	44,388	67,756	39,287
3. M/s. Lucas-TVS Ltd., 37, Mount Road, Madras		ï	58,000	52,173*	83,431*	1,20,399*	1,05,533*
4. M/s. Orient General Industries Pvt. Ltd., 111/1, Barrackpore, Trunk Road, Calcutta.	6	ç	30,000	19,864	23,773	19,755	24,782

*These figures include switches used for flashers also.

ANNEXURE 'E'

New Products Development (Or under Development) by Lucas-TVS Ltd. during the

Last Three Years

- 1. Development Independently at Lucas-TVS
- 1.1 Regulator for Railway Carriage Generators:

Following an approach by the Railway "Research Designs and Standards Organisation" Lucknow the R & D Department looked into methods of controlling the output of railway carriage dynamos using devices having a low copper content. (There is an extremely high incidence of thefts of carriage regulators at the present time by copper thieves). During 1972 a fully transistorised device was developed and this is now undergoing proving trials at I.C.F. Madras. This development is the subject of patent application No. 134439 of 1972.

1.2 Device for Cleaning Oxidised Electrical Contacts

Tungsten contacts give the best endurance life conditions for automobile ignition systems and voltage regulators but under-conditions of high humidity the contact material tends to exidiss and becomes non-conducting when left standing over a period of time. This device enables contacts to be cleared (electrically by capacitor discharge) without dismantling and is particularly useful where equipment has been in storage for a long period of time. This development is the subject of Patent application 135127 of 1972.

- 2. Development on the Basis of U.K. Original Know-how
- 2.1 Starter Motors
- 2.1.1 M35 (Short Core, Outboard Meshing)

Developed for the premier president in place of the M3PE previously fitted. This involved substantial unit saving for the customer and improved reliability and indigenous content.

2.1.2 M45 (37 slot starter with 5-roller drive and new solenoid)

This replaced the earlier M45 starter fitted to Standard 1 Ton Van and Nissan Truck. Reasons to use common parts with diesel starter.

2.1.3 M45 (23 slot starter with 5 roller drive and new solenoid)

This replaces the earlier M45SID starter has lower material content and is 100% indigenous. Some parts designed common with 2.1.2. A variety of different fixing arrangements and driving pinions have also been evolved to suit new tractor applications.

- 2.2 Generators
- 2.2.1 C40AQT Dynamo

Dynamo with tachometer drive from end of shaft—special for Escorts (Ford) 3000 tractor. Also variants of 040 dynamos with special mounting arrangements to suit new tractors from Czechoslovakia and Germany.

2.2.2 CG85 Dynamos

Non-ventilated and special characteristic dynamos development for Deutz trucks built in Egypt.

- 2.2.3 AC5 Variants
 - Special output characteristics in 12V designs plus a 32V unit for the TISCO shunter.
- 2.3 Regulators

2.3.1 3GC Electro-Mechanical Regulator for Dynamo

The earlier 12V electro-mechanical regulator design has been modified to make it less susceptible to damage caused by being dropped or mishandled in transit between our factory and the customers' premises. A 2/V version of the regulator has been developed and the earlier dissimilar design of 2/V regulator has been discontinued.

2.3.2 440 Electronic Regulator for Alternators

The 440 regulator has been amended in order to make it capable of withstanding abuse caused by unskilled mechanics in the field. A dual sensing system has been introduced application 134495 and patent coverage is being sought in other countries.

2.3.3 Part Electronic Regulator for Alternators

This uses an electromechanical switch controlled by and electronic circuit. The design can substitute for type 440 if suitable transistors are not available for the latter. Patent application number 134496, foreign patents also applied for.

2.3.4 Protective device for electromechanical regulator

This device prevents damage to the unit or the system due to misconnection. Patents have been applied for in India, Europe and South America.

2.4 Flashers

2.4.1 Type M5

Two minor developments have taken place:

- (A) to introduce dual purpose connectors (screwed terminals or blade type) using common components, and
- (B) to enable the flasher to work over a range of bulk loads 30W to 42W (necessary because of lack of standardisation of ancillary lamp bulb ratings on vehicles made in India).
- 2.5 Headlamps
- 2.5.1 Type \$700

A spot lamp has been development for military and civil aviation (Airfield vehicles) based on the S700 lamp.

- 2.6 Ignition Systems
- 2.6.1 PA12 Coil

A high output ignition coil has been development primarily for export.

2.6.2 MA6/12 Coils

New versions of these coils have been made for energy transfer (scooter) applications.

2.6.3 23D/25D Distributors

A new 3 cyclinder distributor with a system to inhibit reverse running has been developed for Bajaj engines also a new (long shaft) 4 cylinder distributor for Willys a 6 cylinder for Hindustan Bedford.

- 2.7 Screenwipers
- 2.7.1 A high performance permanent magnet motor, link operated wiper, has been developed for the new TELCO LP series cab which requires much larger wiper arms and blades than their previous vehicles.
- 2.8 Miscellaneous
- 2.8.1 24V version of the long life 14H horn has been developed primarily armed at the export market.
 - 8-8 MofLJ/CA/ND/79

2.8.2 Waterproof Horn

A fully Waterproofed version of the horn has been developed for Defence and for export.

2.8.3 Turret Motor

A turret motor has been developed for VRDE and is under trial.

2.8.4 Coil-Tester

An inexpensive Coil testing unit has been developed for this company's Services Organisation.

2.8.5 4ST Solenoid

An improved solenoid design (type 4ST) has been introduced for use with inertia starters.

- 3. Development Work in Progress
 - Development work is at an advanced stage on the following products.
- 3.1 A version of the existing M45 range of starters to enable the type CA45 to be deleted from the product range.
- 3.2 New types of clutch mechanism for axial starters to avoid the need to import phosper Bronze.
- 3.3 A new 15HP starter (S16) for the Vijayanta Tank.
- 3.4 A range of gun control, turret control, lighting and charging control gear for the Vijayanta tank.
- 3.5 A smaller alternator to meet Defence light vehicle requirements.
- 3.6 A rack type screenwiper capable of operating larger arms and blades than the existing DR3A unit.
- 3.7 A smaller energy transfer type ignition coil for motorcycles and stationary engines.
- 3.8 A modified 3" constant mesh starter for export customers.
- 3.9 An improved headlamp arrangement for passenger cars.

Annexure 'F'
List of Indian and Foreign Patents Applied for by Lucas-TVS Limited

Sl. No.	Subject .	Filling date India	Foreign applications to be made				
1.	Improvement to Voltage Regulators (Dual Sensing) (Application No. 134495).	4-2-1972	UK, USA, Germany, Italy, Spain, Japan, France, Argen- tina, Australia.				
2.	Improvements to Voltage Regulators (Part Electronic Regulator) (Application No. 134496).	4-2-1972	UK, Germany, Italy, Spain France, Argentina, Australia.				
3.	An improved Transistorised Voltage Regulators for Train Lighting Dynamos. (Application No. 134439).	31-1-1972	None.				
4.	A device for cleaning oxidized Electrical Contacts (Application No. 135127).	1-4-1972 Argentina.					
5.	Regulators for Electrical Charging Systems	November, 1972 Provisional	U.K., Spain, France, Argentina.				
6.	Transistorised polarised Relay	February 1973	UK, Australia.				

Annexure 'G'

Estimates of Demand for the Five Products by 1978-79

The Planning Commission has indicated that on the basis of the anticipated production of 117,000 of autovehicles—Commercial vehicles, jeeps, passenger cars and three wheelers—in 1973-74, and the annual rate of growth of 7.04% indicated in the 'Approach to the Fifth Plan', the production of these vechiles by 1978-79 would be 164,000. The tentative estimate of production of tractors by 1978-79 is placed by the Planning Commission at 80,000. To this may be added the likely production of 14,000 of defence vehicles and 25,000 of stationary engines requiring starters. On the basis of these estimates (totalling 2,83,000) the demand for starters and generators by 1978-79 as Original Equipment may be expected to be 2,83,000. The replacement demand is estimated on the basis of the proportion of replacement demand to O.E. demand as worked out by the Task Force, and comes to 39,000 each for these two products. The O.E. demand for regulators is the same as for starters and generators. The replacement demand of 4,23,000 is estimated on the same basis as for starters and generators, i.e., on the basis of the proportions in the estimates prepared by the Task Force.

There was no indication available from the Planning Commission regarding the revisions in the targets of motor-cycles, Scooters and similar other vehicles. In the absence of this, it was not possible to arrive at a revised estimate for head lamps. The estimates prepared by the Task Force were, therefore reduced in proportion to the revisions in the estimates of production of motor-vehicles, three wheelers and tractors due to the revised growth rate indicated in the 'Approach document'. Thus it was observed that the revised estimates were 66.15% of the estimates prepared by the Task Force for these vehicles and the same rate of reduction was applied to the earlier estimates of the Task Force, to give a revised estimate of demand of 12,75,000 headlamps (D.E.+replacement) by 1978-79. It may be mentioned that the likely production of motor cycles, scooters etc., implicit in this estimate, comes to about 5,00,000 indicating an increase of more than 210% over the anticipated production of 163,000 in 1973-74. This Companies well with the increase of 110% during 1965-66 over 1960-61 and of 138% in 1970-71 over 1965-66.

The estimated demand for flashers of 820,000 has also been worked out following the same procedure as for Headlamps.

The estimates are presented in the attached table.

Estimated Demand by 1978-79 for the five products

		सत्यमेव जयते	(in 000) 1978-79
A.	Start	ers & Generators	
	I.	Estimated production of Commercial vehicles, jeeps, cars, etc. and three wheelers(1).	164
	2.	Estimated production of tractors (2)	80
	3.	Estimated production of defence vehicles	14
	4.	Estimated production of Stationery engines requiring starters (3)	<u>25</u>
	5.	Total	283
	6.	Estimated demand for starters & generators (OE)	283
	7.	Add Replacement demand (4)	39
	8.	Total demand for starters and generators	322
R	Roas	ulators	
ъ.		Demand as original equipment (as in the case of starters & generators)	283
		Add replacement demand (4)	423
	41.	Total demand for regulators	706

															(in 000 1978—7
7.	Head	dlamps													
	12.	Estimated pr	roduct	ion c	of mot	tor ve	hicl e s,	three	-whee	lers a	nd tra	ctors		٠	258
	13.	Estimate of	produc	tion	as gi	v e n b	y the	Task I	Force			•	•		390
	14.	12% 13(%)			•										66.1
	15.	Estimate of	oroduc	tion	of he	adlan	nps as	given	by th	e Tas	k Ford	e:			
		15.1 O.E.					•		•						1550
		15.2 Replac	ement				•	•			•				380
		15.3 Total											•	•	1930
	16.	Revised estin	nate of	fpro	ducti	on of	headl	amps	(15 × 1	(4):					
		16.1 O.E.		r						-, -					1025
		16.2 Replac	ement	•	•	Ċ	•	•	•	•	•	•	•	•	250
		16.3 Total				•		,		·		Ċ			1275
1	Flasi	have													
		Estimate of p		tian.	of flo	hara		h	dha T	aala 15a					
	17,	•	n ouuc	MOII	OI IIA	911C12	as giv	cir Dy	ine i	ask 1'(исе ;				005
		17.1 O.E.		•	•	•	•	•	•	•	• ′	•	•	•	285
		17.2 Replac 17.3 Total	CIHCIII		•	. 9	ONES		2	• '	•	•	•	•	955 1240
	10	Revised estin	·	· ·f nr	aduati	ion of	Aacha	.ra (19	· ~14\	•	•	•	•	•	1240
	10.		iaics (n pre	Juucu	OII OI	1145110	15 (10	X 1 T)	•		•			100
		18.1 O.E. 18.2 Replace		•	•	•		2.7	g	•	•	•	•	•	190
		18.3 Total	cinent		•	•	VA			•	•	•	•	•	630 82 0
		10.5 10.21	• '	•	•	•	LIL			•	•	•		•	020
(1)		indicated by the	Planni	ng Go	ommiss	ion ar	id base	d on th	e grow	th rate	indicat	ed in	the 'A	pproa	ch to Fif
(2)	Pia Ter	m. ntative estimates	indicat	ed by	the P	lannin	g Com	mission	1						
·-/		tative estimates													

Annexure 'H'

LUCAS

Teslucase

The Lucase Electrical Company Limited, Great King Street, Birmingham, 519 2XF Dr. H.K. Paranjape, Member, The Monopolies and Restrictive Trade Practice Commission, New Delhi, India.

DEAR SIR.

Subject: Application for Expansion of Lucas-TVS Reply to the question raised at the public hearing of the M.R.T.P. on 11th May, 1973.

Prior to the public hearing by the Monopolies and Restrictive Trade Practices Commission on the 10th and 11th May, 1973 much background information has been provided to you in answer to your questionnaires and also to supplementary questions arising from perusal of our answers. In addition, you have received the brochure produced in May, 1973 entitled "Manufacture of

Automobile Electrical Equipment. A Lucas-TVS proposal for Expansion." Further background amplifying the technical services provided by us to Lucas-TVS was in and attached to the letter S3057 of 14th June, 1972 on renewal of the technical aid and royalty agreement with Joseph Lucas Industries Ltd. UK addressed to the Ministry of Industrial Development and signed by Mr. T.S. Krishna, Chairman of Lucas-TVS, and in his letter S22/NK/TKC of 18th May, 1973 addressed to the Ministry of Heavy Industry.

At the hearing we were remainded that in the case of a majority non-residing shareholding in a company, the Government's policy is not to allow any expansion unless 60% of the additional production is exported. We explained that with great efforts made by Lucas-TVS supported by us at significant expense to ourselves; it was only possible to envisage exports reaching some 3 to 5% of output at factory cost of total production. We were then asked how many of our shares we would be prepared to offer to the Indian public and were told that a substantial effort was required, and TVS were asked to what extent it was prepared to reduce its family holdings and offer its shares to the public.

In answer to the question at the public hearing, we feel that it is important that the request is viewed in its true perspective. We were granted a manufacturing licence in 1961 to produce automotive electrical equipment. The Government's aim was to establish a collaboration between an Indian partner and an international company, the latter providing designs, patents, and technical aid. This factory would substitute local production for imports, thus conserving outgoings of foreign currency. From the outset Lucas and TV Sundram Iyengar & Sons Ltd. were determined to see that the products made in India would be fully acceptable to Indian vehicle makers on the score of quality, reliability, price and delivery. Lucas-TVS have endeavoured to respond fully to the stated wishes of the Indian Government among other things, by developing small scale and other ancillary units, by employing people in greater numbers than operational requirements would have dictated and by indianisation. They have achieved completely every initial target set by themselves and the Indian Government which has resulted in an efficient manufacturing unit being established. This had led to Lucas-TVS having a dominent position in some automotive electrical components, based largely on our quality and delivery record.

The success of Lucas-TVS has depended in part on our making available to them the fruits of design and development work carried out by us in the UK where currently some £14 million per annum is being spent on Research and Development. This has made it possible for material costs of existing designs to be reduced and for designs to be changed to make better of materials. We have provided Lucas-TVS free access to all current and future thinking which would certainly not have been available on the basis of a Royalty and Technical Aid Agreement alone, without our equity participation. It must be remembered that when we invested we were putting out confidence, which has proved to be justified, in the development of the motor industry in India, but the rewards to be achieved from our investment not only in money but in time and men were by no means certain at that time. We agreed with our partners to limit dividends to 15% and to plough back profits into the business in order to strength it and enable growth to take place.

There has been continuous close liaison at many levels and at a frequency which we believe has matched the problems to be solved. This has included prolonged training periods for Indian nationals, often at our expense, in various disciplines. This support by us has enabled Lucas-TVS to meet the requirements of the Indian motor industry for products used within the country. Some vehicle makers, including TATA for example, are successfully exporting and they firmly intend to increase their exports. This exposes Lucas-TVS products to critical comparison with those made elsewhere in the world. To face this competition effectively requires design, quality and reliability, as well as costs and delivery to be satisfactory inthe overseas country which will only be achieved if new products and processes are developed as the needs arises. There would seem to be two courses open, either for India to be satisfied with using older products as in the case with some of the items manufactured today and forego good prospects of exporting in the future, or alternatively and more constructively to become gradually competitive by having with our help, up-to-date designs produced at higher volumes.

We have been, and are, doing our best to help Lucas-TVS to export by two means. First the World Services Network developed from Lucas UK products has been made available with the relevant market intelligence to Lucas-TVS for the distribution of their products and for after sales services. Secondly it is intended to make Lucas-TVS the world base supply point for certain products or major components for the after market and some original equipment requirements. This means reducing the value of goods manufactured by us in the UK. As mentioned at the hearing, DC generator armatures are currently in this category and to help Lucas-TVS compete in export markets, a shuttle winding machine capable of producing armatures at higher rates and lower costs is being rebuilt in the UK for supply to them at the cost of rebuilding only. In addition, it is intended to produce in Lucas-TVS certain ignition distributors and heavy duty starters and generators of high unit value.

As was also pointed out at the hearing Joseph Lucas Industries Limited has a responsibility to its shareholders to maximise the profitability of their investments and is faced with a wide variety of opportunities for licensing and equity participation in countries ranging from the Eastern European block to Latin America and including several countries in the Middle East and Far East. Many countries are offering preferential terms over a long period to encourage foreign investment and allowing large rebates on exports. We must review our investment in India within this framework.

Our investment in Lucas-TVS commenced in 1962 but no dividend was paid until 1967 which means that we have only received a benefit over the last 5 years. We have to look at our return in terms of pounds sterling received in the UK and on our present investment of approximately £1 million, we have received a total dividend of £550,000 over the 10 years since the initial investment was made.

In our view our 60% equity in Lucas-TVS should be allowed to continue.

We are however, aware of the stated requirement of the Indian Government to reduce foreign shareholdings and are therefore prepared to discuss reducing our equity from 60% to 55%. We would have in mind making this reduction progressively by the issue of shares to other parties in line with the expenditure on planned expansion and the value of business obtained but ensuring our equity falls to 55% by the end of 5 years.

सन्धमेव जयते

We presume that if the Government insists on the reduction of Lucas equity, there would be no objection to the merger of Lucas Indian Services and Lucas-TVS and the expansion of ignition coil production at I.I.S. We should like the Indian Government to advise what provisions would be made with regard to the prices at which the shares would be offered, how the money involved would be remitted to the UK and to what tax it would be liable in India if such a reduction in equity were to occur?

We would also ask that the royalty on products which have not been made for the full 10 years of the previous licence agreement be allowed to run for the remainder of the 10 years at 3% of "factory cost" for sale in India and 4% for export. These royalty figures are based on the assumption that the percentage technical aid fee is to be eliminated as indicated by the Ministry of Heavy Industry. We understand that royalty rates on products introduced in future will depend on the attractiveness of them to India but in any case will not be less than 3% for sale in India and 4% for export.

We hope our reply in the form of this letter or from telexed information we have sent to our partners reaches you by the deadline you set of the 19th May and enables you to report favourably.

R. F. Groves

Overseas Director

Annexure 'I'

LUCAS-TVS

LUCAS-TVS LTD PADI, Madras-50

Regd. Office: 37, Mount Road, Madras-6

Mr. T. N. Pandey, Deputy Secretary,

Monopolies & Restrictive Trade Practices Commission,

Travancore House, Kasturba Gandhi Marg, Post Box No. 424, New Delhi-110 001. May 21st 1973

DEAR SIR.

Sub: Enquiry Under Section 21(3)(b) of the MRTP Act 1969—Information—Regarding.

During the public Enquiry held at Delhi on May 10th and 11th, 1973, Dr. Pranjape had requested further information on the number and value of components obtained by Lucas-TVS from small scale units. This was to substantiate the information we had already given in our statement dated 28-3-1973, wherein we had indicated that of the total items of 2327, 35.8% represents bought out items and 6.4% represents sub-contracted items, adding upto a total of 42.2%.

We are enclosing a statement giving details in terms of both number of items and value, indicating separately purchases from small scale items, purchases of other ancillary items and proprietary items.

We would like to emphasise that in addition to above purchases from small scale sectors, the company has devoted substantial time and effort to develop indigenous sources of supply for raw materials like yoke strips, commutator section rods, pole piece section rods and lamination steel strips. Since these involve development of raw materials, we have not included these items in the Statement 'A'.

We enclose Statement 'B' separately showing the number of items involved, the annual consumption and approximate value of these raw materials.

सन्धर्मव जयते

Thanking you,

Yours faithfully, for Lucas-TVS Limited (Sd.) VIJI SANTHANAM Executive Assistant to Chairman.

Details of Indigenous Purchases, 1972-73

Lucas-TVS Limited

21st May, 1973

STATEMENT 'A'

Description		Small Scale	Other Ancillaries	Proprietary	Total
No. of Items		835	137	10	982
Percentage to total by No. of items		85.0	13.9	1.1	100.0
Value in lacs		101.17*	65.16	16.91	183. 2 4
Percentage to total by value	•	55.2	35.6	9.2	100.0

Note:—Small Scale: Suppliers whose investment is Rs. 7.5 lacs and below have included in this category.

Proprietary: This includes ball bearings and certain standard Electronic items.

^{*}This value does not include Rs. 23.55 lacs, value of raw materials supplied by us to small scale units for machining flabrication etc.

STATEMENT 'B'

Sl. No	Descriptio.	n			No. of items	Annual quantity consumed in M. Tonnes	Value in lacs of Rs. (approx)
1.	Yoke Strips				11	1177	36.27
2.	Pole Piece Sections Roads				1	23.40	0.83
	Commutator Soction Rods			•	5	199.80	52.92
		То	TAL				90.02

No. 1/4/71-M(III)(I) GOVERNMENT OF INDIA MINISTRY OF LAW, JUSTICE AND COMPANY AFFAIRS DEPARTMENT OF COMPANY AFFAIRS

BEFORE THE CENTRAL GOVERNMENT

In the matter of Notice under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969.

And

In the matter of proposal of M/s. Lucas-TVS Limited for effecting substantial expansion for the manufacture of automobile ancillaries.

M/s. Lucas-TVS Limited, (hereinafter referred to as "the applicant company") gave a Notice under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969 (hereinafter referred to as "the Act") seeking approval of the Central Government for effecting substantial expansion in its capacity for the manufacture of the following items of automobile ancillaries for the capacity shown against each:—

	I	tem				Present annual capacity	Expansion proposed	Annual Capa- city after expansion
1.	Starters		•	•	•	74,000	1,76,000	2,50,000
2.	Generators					78,000	1,72,000	2,50,000
3.	Regulators					80,000	3,20,000	4,00,000
4.	Flashers .	•				41,000	2,09,000	2,50,000
5.	Headlamps	•				1,20,000	3,80,000	5,00,000

- 2. The applicant company is registered under section 20(a)(ii) of the Act and belongs to the TVS Groups of companies. It is also a foreign majority company in which 60% shares are held by M/s. Joseph Lucas (Industries) Ltd., U.K. As required under the rules the proposal was advertised and in response thereto, a number of parties have filed their objections against the proposal.
- 3. On a consideration of the available information the Central Government formed the opinion that an order on the proposal could not be made without further inquiry. Accordingly the proposal was referred to the Monopolies and Restrictive Trade Practices Commission (hereinafter referred to as "the Commission") for an inquiry and report. The Commission submitted its report recommending approval of the proposal subject to certain conditions. While the proposal

was under consideration of the Commission, the company's capacity for these items was enhanced under the liberalised licensing policy announced by the Government on 1st February, 1972 as under:-

1. Starters .	•	•	1,37,000
2. Generators			1,34,000
3. Regulators			2,03,000
4. Flashers .			58,000
5. Headlamps			1,54,000

The enquiry of the Commission, therefore, related to the capacity over and above that recognised by the Government under the Liberalised licensing policy. The commission has recommended approval of the proposal subject to the following conditions:—

- (a) The applicant company and its present equity holders should agree that the equity held by Joseph Lucas Industries of U.K. shall be reduced to 45% and the equity held by TVS Group shall be reduced to 30%. The balance of 25% shall be is issued in the first instance to the public financial institutions designated by the Government.
- (b) The reconstruction of share capital as at (a) above shall be effected within two years from the date of issue of the order.
- (c) Necessary changes should be made in the Articles of Association to provide that outside shareholders like financial institutions holding equity will have representation on the Board.

The Commission has also made specific recommendation about the extent of expansion that should be allowed to the company in regard to the 5 items involved as under:—

(1)	Starters .	21464	A.	1,85,000
(2)	Generators		170	1,95,000
(3)	Regulators	1	73	2,50,000
(4)	Flashers .		120	1,02,000
(5)	Headlamps	यमेघ ज	यसे	2,00,000
	4.55	의 에에 의	역의	

- 4. In terms of section 29 of the Act a hearing was given to the applicant company and also to the objectors. The substantive points that emerged in the course of the hearing may be summed up as under:—
- (a) In the course of hearing the representatives of the applicant company drew attention to the Commission's findings that the demand projection submitted by the applicant company were wrong. In the opinion of the applicant company that would not be a correct conclusion inasmuch as those projections were drawn by an expert body on which the concerned Government officials were also represented.
- (b) The representatives asserted that the applicant company has not, by virtue of its monopolistic position, exploited the market as observed by the Commission. In fact, during the period from 1967 to 1970 the average price increase in respect of the items manufactured by the company was only 3% as against the average price increase of vehicles to the extent of 9 to 11% during the same period. The foreign collaborators had helped the applicant company to produce and market quality products. In achieving this object, the collaborators had trained Indian engineers, paid for their fair and other expenses at a considerable cost and also lent nearly 35 British engineers to the applicant company which had to meet only their local expenses, the other expenses having been paid by the U.K. Company. The collaborators looked at collaboration arrangement as a long term on which would give them rich dividends in the years to come. Though the Indian company was formed in 1962 the first dividend was declared in 1966-67. As a matter of policy they always insisted on having majority holdings in companies abroad not only in India but in Japan also and only then the technology, was made available. It was, therefore, unfair to ask them (foreign collaborators) now to reduce their holdings at this juncture. The applicant company also indicated that there did not seem to be any justification for departing in this case from the Government's general policy on dilution of foreign shareholdings.

- (c) The Starters and generators were matching items and their production should normally be in equal numbers. While the company had applied for a final capacity of 2.50 lakh numbers each of the Starters and generators, the Commission had recommended a capacity of 1.85 lakh numbers for starters and 1.95 lakh numbers for generators. The capacities to be allowed by the Government for these two items should it was represented be equal.
- (d) Though there was no understanding between the Government of India and the U.K. Company to the effect that the Indian company would be required to undertake export obligation, the foreign collaborators fully supported the idea of exports from India and had in fact been instrumental in obtaining an order worth Rs. 8 lakhs for the Indian company. The exports of ancillaries normally followed the export of vehicles & since the export of vehicles from India was not significant, the extent of export of ancillaries could not be increased beyond a certain limit. Nevertheless, the foreign collaborators would be willing to extend their helping and to the Indian company for promoting the exports of these products. It was stated on behalf of the applicant company that the latter could not, however, commit to undertake export obligation beyond a level of 5%.
- (e) It was also stated that it would not be possible for the applicant company to allow the public financial institutions to subscribe to fresh issue of capital if required to be made, though they would have no objection to such fresh issue being made available to the members of the public privately without being required to get itself listed on the stock exchange. The collaborators apprehended that if a fresh capital has to be issued, they would not be able to retain any technical or management control over the working of the Indian company. This would in this view be a very poor reward for the financial and technical assistance which they had been giving for a long time to bring up this leading manufacturer in India.
- (f) The representatives of the parties who objected to the proposal of the applicant company made out the following points in support of their objections:—
 - (i) One view was that the report of the commission was absolutely right on facts and was in accordance with the policy of the Government of India. Yet another view expressed was that the Commission's report was not in accordance with the objectives of the Act.
 - (ii) The gross profit of the Lucas-TVS was 20% whereas their profit was $7\frac{1}{2}\%$. The objector had no objection as such to the expansion of Lucas-TVS but only that the expansion to be allowed should be reasonable.
 - (iii) The applicant company is monopolistic and by virture of its position, had exploited the market.
- 5. The applicant company on a date subsequent to the date of hearing has by a formal letter conveyed its agreement to the reduction of the holdings of the foreign collaborators from 60% to 51% provided such an arrangement would continue for a reasonable length of time. The Indian collaborators were also prepared to accept the reduction in its holding from 40% to 34%. The applicant company has further requested that they should be allowed to bring about this change in a period of 2 years provided the constitution of the Board of Directors is allowed to remain as it was established by the Formation Agreement entered into by the two collaborating parties and approved by the Government and by the articles of Association of the applicant Co.
- 6. The question of capacity that should be allowed to the applicant company for the 5 items involved was duly considered by the concerned Governmental authorities after taking into consideration the findings and recommendations of the Commission, the information and clarifications that emerged in the course of the hearing given in this case under section 29 of the Act and other relevant factors. The question of restructuring of the shareholdings pattern of the applicant company was considered in the light of the stand taken by the foreign collaborators and Indian collaborators as indicated in paragraph 5 above. In the light of those considerations and all other relevant factors the Central Government formed the opinion, that it will be expedient in the public

interest to accord approval to the proposal of the applicant company subject to the conditions stipulated in the order herein below:—

ORDER

The Central Government in exercise of its powers under section 21 read with section 54 of the Monopolies and Restrictive Trade Practices Act, 1969 hereby accords its approval to the proposal of M/s. Lucas-TVS Limited subject to the following conditions:—

(i) The applicant company should be allowed expansion as under :--

Item		F a	inal capacity fter expansion
Starters		•	1,95,000
Generators		•	1,95,000
Regulators			3,00,000
Flashers			2,50,000
Headlamps	C 13	(Fig.)	4,50,000

- (ii) The equity holding of the foreign collaborators namely M/s. Joseph Lucas Industries Limited., U.K. should be brought down from 60% to 51%.
- (iii) The equity holding of the TVS Group of companies should be brought down from 40% to 34%.
- (iv) The balance equity holding to the extent of 15% should be offered in the first instance to the Public Financial Institutions such as LIC and U.T.I. and if they decline, the same should be offered to Public through recognised stock exchange.
- (v) The change in the equity structure as indicated at (ii) to (iv) above should be effected within two years from the date of approval.
- (vi) Necessary changes should be made in the Articles of Association of the applicant company to provide that outside equity shareholders like financial institutions and those not belonging to the Lucas and TVS Group will have due representation on the Board of Directors of the applicant company.
- (vii) The applicant company will undertake export obligation at least upto the level of 10% of its annual production. This condition may be waived by the Central Government for specific period or periods if considered necessary in the interest of domestic demand.
- (viii) The loans from financial institutions shall be subject to the right of insertion of convertibility clause according to the Government Policy.
 - (ix) The applicant company shall ensure that the debt-equity-ratio does not exceed 2:1 and net block-debt ratio does not exceed 1:0.5.

New Delhi, the 28th March, 1974. (Sd.) A.K. GHOSH

Under Secretary to the Government of India



REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF THE METTUR CHEMICALS AND INDUSTRIAL CORPORATION LIMITED, SALEM, TAMIL NADU





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MONOPOLIES AND RESTRICTIVE TRADE PRACTICES COMMISSION, NEW DELHI

Report under Section 21(3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969 in the case of The Mettur Chemicals & Industrial Corporation Ltd. (Regd. Office & Factory: Mettur Dam-2, Salem District (Tamil Nadu)

The Mettur Chemicals & Industrial Corporation Ltd. submitted an application on 24-12-1970 to the Secretary to the Government of India, Department of Company Affairs, New Delhi, under the provisions of the Monopolies and Restrictive Trade Practices Act, 1969 seeking the said Department's approval for manufacture of three kinds of new goods, viz:—

- (i) Silicon Tetra-chloride;
- (ii) Esters of Silicic Acid such as Ethyl Silicate, Methyl Silicate, Butyl Silicate and Octyl Silicate and their polymers and co-polymers;
- (iii) Silico Chloroform (Trichloro Silane) and other Silances.

The quantity proposed to be manufactured has been shown as 600 tonnes, 600 tonnes and 3 tonnes per annum respectively.

- 2. This application of the company was referred by the Department of Company Affairs to the Monopolies & Restrictive Trade Practices Commission, vide its letter No. 1/14/71(M-I) dated 2-3-1971. The Government's letter along with other papers was received in the Commission's office on the same day. Ordinarily the Commission was required to send its report to the Government within a period of 90 days, which expired on 30-5-1971. However, on account of certain administrative reasons, the Commission vide its order dated 21-5-1971 extended the time for furnishing the report to the Government, upto 30-6-1971. A copy of the order is enclosed as Annexure 'A' to the report.
- 3. The applicant company is engaged in the production of various types of chemicals like caustic soda, chlorine, lime, calcium-chloride, chloroform, carbon tetra-chloride, silicon tetra-chloride, etc. According to its own admission, it holds a dominant position in respect of the following items of production and it is also monopolistic in four out of these five products:—

Description	Market share of the undertaking								
	 · · · · · · · · · · · · · · · · · · ·		선리부	의리:					
1) Stable Bleaching Powder			•		About 35%				
2) Methyl Chloride .					Only producer in the country				
3) Methylene Di-chloride		•		•	Do.				
4) Chloroform					About 60 to 70%				
5) Carbon Tetra-chloride					Do.				

The company proposes to manufacture the new items mentioned in para 1 above, because according to its own information, these chemicals are presently being imported and there is no producer for these in the country. The company's programme is to manufacture these silicon compounds in collaboration with the Indian Institute of Science, Bangalore. Its contention is that taking up production of these compounds on a commercial scale based on laboratory process requires considerable technical know-how and expertise and that the applicant company is well equipped for this. Besides meeting home demand, the company also visualises export of these products.

4. Cost of the project and the scheme of finance.—The capital cost of the project, according to the company's estimates, would be Rs. 4.75 lakhs as under:—

				Rs. 4.75 lakhs
Raw materials	٠	•	•	Rs. 0.25 lakhs
Building				Rs. 0.50 lakhs
Plant & Machinery			•	Rs. 4.00 lakhs

The import requirement is expected to be of the order of Rs. 1 lakh only. The latest available balance sheet of the company i.e. as on 31-3-1970, has shown the following position regarding the company's capital and reserves:—

The Company proposes to finance its new project from its internal resources viz., Depreciation Funds. The shares of the company are fairly widely held by the public. The percentage of the equity shares held by the Directors and their relatives comes only to 0.72. The Life Insurance Corporation holds 19.55 per cent of the equity capital and the Unit Trust of India holds 8.71 per cent of the equity.

- 5. In considering the company's proposal the Commission has kept in view the following criteria:—
 - (i) How far the proposal of the company will meet the existing demands in respect of products which are presently being imported from abroad;
 - (ii) What has been the behaviour of the company in the past in its dealings with its customers in respect of various products for which it holds monopoly/dominant position.
- 6. The total assets of the company as on 31-3-1970 amounted to Rs. 8.32 crores. An addition of Rs. 4.75 lakhs to these assets was not going to make any significant addition leading to the concentration of economic power, considering the size of various other concerns manufacturing chemicals in this country. It was, therefore, not considered necessary by the Commission to issue an advertisement calling for the opinion of the members of the public. However, the Commission addressed important bodies concerned, such as:—
 - (1) Director General of Technical Development,
 - (2) Ministry of Industrial Development & Internal Trade,
 - (3) Planning Commission,
 - (4) Indian Institute of Science, Bangalore,
 - (5) National Chemical Laboratory, Poona,
 - (6) Directorate General of Supplies & Disposals,
 - (7) Director of Administration, Defence Research,
 - (8) Director, Oil & Paints & Chemicals, D.G. Supplies and Disposals.
- 7. The Indian Institute of Science, Bangalore, confirmed that the Institute had entered into an agreement with the applicant company for the transfer of technical know-how and for collaboration in the manufacture of silicon tetrachloride, esters of silicic acid (Ethyl silicate, methyl silicate, etc.) and silico chloroform and it would be in the national interest to promote the manufacture of such important industrial chemicals. According to the Institute the applicant company has been a pioneer concern in the manufacture of chlorine and its utilisation for a variety of industrial products. Therefore, the applicant company was situated in an advantageous position for the manufacture of the articles proposed. The Commission called for the Feasibility Report submitted by the Indian Institute of Science by Shri A.R. Vasudeva Murthy and G. Suryanarayanan. This report showed that Silicon tetrachloride is a very important industrial chemical for the preparation of a variety of products such as ethyl silicate silane silicones and semi conductor grade silicon. Pure silicon tetrachloride is reduced to silicon over a hot filament and this is very useful as a semi conductor. Silane gas can be produced from silicon tetrachloride and there is a great demand of this gas in the electronic industry and there is a possibility of exporting this gas to U.S.A. The present demand for silicon of semi conductor grade is about 500 Kg. Ethyl silicates are useful as investment binders, refractory binders, for impregnating porous material weather proofing gels, films, adhesives, corrosion inhibitors, plasticizers, fire proofing, and leather industry. This has a special importance to foundry engineers as investment binder for precision casting of metals. The National Chemical Laboratory also confirmed that the applicant company had made correct assessment of the Indian situation in respect of Silicon chemicals and that it was in a favourable position in respect of raw materials and it should be given encouragement if it were to manufacture

8. The Planning Commission (Industry & Minerals Division) stated that no target had been set out for any of the chemicals in the erstwhile Fourth Plan (1966-71) but the report of the Planning Group had indicated an estimated internal demand of 200 tonnes and likely export demand of 50 tonnes in 1973-74. The Planning Commission added that it was understood that at present there were only 2 manufacturers of silicones with a production of about 50 tonnes a year based on imported intermediates. The Directorate General of Technical Development also replied that these were not targeted industries but the items were not being manufactured in the country, which had to depend on imports. However, import figures were not available as these chemicals are not specifically indicated in the monthly statistics of the Foreign Trade of India. According to the D.G.T.D., a firm of the name of M/s. Metroak, Pvt. Ltd. of Calcutta had been registered in the small scale sector for the manufacture of different organo silicon products from imported chlorosilanes and silicon bases but the project was still under Pilot Plant Study. The D.G.T.D. also added that no other application for manufacture of these chemicals had been received so far in his office. The applicant company was asked to state whether it had conducted any market survey. The company replied by its letter dated 14th April, 1971, that it was difficult to assess the present Indian demand accurately because of the dependence of offtake on restricted imports. However, as the proposed product belongs to a family of new chemicals, new uses are bound to develop once the basic material is available indigenously. The anticipated selling prices, based on preliminary estimates would be as follows:

(i) Silicon Tetrachloride Rs. 3,000 per tonne

(ii) Esters of Silicic Acid Rs. 8,330 per tonne

The company also pointed out that it had been able to keep down the capital cost to Rs. 4.75 lakhs because it had a host of other ancillary services already at its disposal, e.g., services like refrigeration, steam, water, power, etc. Further, the company being one of the biggest manufacturers of chlorine, it was in a position to provide chlorine gas at various pressures. If all these services were to be provided independently, it would cost another Rs. 15 lakhs.

- 9. In order to assess the technical efficiency and business conduct of the applicant company, the Commission addressed queries to many of the potential consumers of the proposed products as well as consumers of the other products made by the company. Replies have been received from some of the parties and they are summarised below:—
- (1) M/s. Hindustan Photo Films are an important consumer of the Methylene Chloride produced by the applicant company. M/s. Hindustan Photo Films have reported that the quality of the methylene Chloride supplied by the applicant company was uniformly good.
- (2) The Research and Development Organisation of the Ministry of Defence stated that Silicon Tetrachloride was not used for defence purposes at present and they do not expect any use for the chemical in the near future.
- (3) The Directorate General of Supplies & Disposals intimated to the Commission in its letter of 29th May, 1971 that in its dealings with M/s. Mettur Chemicals, the Directorate had not faced any monopolistic tendency on the part of the applicant company.
- (4) M/s. Kanodia Industries, Bhatinda, informed the Commission that they needed only Ethyl silicate and there was no existing manufacturer of this product in the country. The applicant company, therefore, deserved encouragement.
- (5) The Bhabha Atomic Research Centre informed the Commission that there are no indigenous manufacturers of silicon products proposed to be manufactured by the applicant company and if these compounds were available at a cheaper price and in bulk quantities, the Centre would be interested in buying the material for the production of semi conductor grade silicon.
- (6) M/s. Hindustan Steel Ltd., Bhilai, stated that they had dealings with M/s. Mettur Chemicals in respect of some other chemicals and the latter had not taken undue advantage in its dealings with them.
- 10. As a result of the enquiries made by the Commission, the Commission have come to the conclusion that the three chemicals proposed to be manufactured by the applicant company are essential for various industries and at present there is no substantial manufacturer of these chemicals in the country. Even the small units which are making some productions are depending upon

imported raw materials. M/s. Mettur Chemicals by virtue of their position in respect of supply of chlorine and their previous contact with the Indian Institute of Sciences, Bangalorc, are in a position to manufacture these essential chemicals at a relatively low capital outlay and that the manufacture of these chemicals by the applicant company will lead not only to the saving of imports but also to the furtherance of industrial development in various branches of industry in this country. The amount of actual investment being small in relation to the capital assets of the company by itself, the permission to expand is not likely to make any significant addition to the concentration of economic power in the hands of the company. We, therefore, recommend to Government that the proposal of the company may be approved.

11. Our Colleague, Dr. H.K. Paranjape, was of the opinion that the question of interconnections of M/s. Mettur Chemicals with other companies of what is known as the "Seshasayee group" should be fully gone into before the submission of the report by the Commission. The Chairman and Sri D. Subramanian did not share this view. In their opinion, an enquiry into inter-connection is not a 'must' in every case which is referred to the Commission. Such an enquiry is not an end in itself. In a case like the present one, where the commodities are not manufactured by any other party in India, the capital outlay involved is petty and the whole process is based on indigenous knowhow evolved by our own young scientists, working in a premier institution like the Indian Institute of Science, there is no need for going into the question of inter-connection of Mettur Chemicals with other concerns of the so-called Seshasayee Group. The need for going into 'inter-connection' is a matter for the Commission itself to decide based on the facts of each case. In the present case no other party, not to talk of an undertaking of this group, is manufacturing these chemicals. Therefore the Chairman and Sri Subramanian are of the firm view that an examination of 'inter-connection' is not called for in this case.

I ha

(Sd.) A. ALAGIRISWAMI, Chairman

(Sd.) D. SUBRAMANIAN

Member

I have appended a note of Dissent

(Sd.) H. K. PARANJAPE

Member

New Delhi Dated 30th June, 1971

NOTE OF DISSENT

सत्यमन जयन

- (1) Regarding the conduct of the enquiry in the case of Messrs. Mettur Chemicals, I disagreed with my colleagues on one important point. This was about the examination of the question of alleged interconnection between the applicant Company and other companies included by the Monopolies Enquiry Commission and the Industrial Licensing Policy Inquiry Committee in the so-called Seshasayee Group.
- (2) Under Section 21(3) (b) of the Monopolics and Restrictive Trade Practices Act, an application is referred to the Commission for an enquiry "if the Central Government is of opinion that no such order as is referrred to in clause (a) can be made without a further enquiry." In this particular case, the note for the Advisory Committee as well as the relevant extracts from its proceedings forwarded to the Commission when a reference was made clearly indicated that one of the major points due to which it was decided to ask the Commission to make a further enquiry was the possible interconnection of the applicant company with the Seshasayee Group. The applicant Company itself has denied the existence of any such interconnection after the abolition of the Managing Agency System.
- (3) It was my view that it is necessary for the Commission to examine the question of interconnection in view of the Section 28(e) of the MRTP Act, and also specially in view of the fact that the authority/which examined the question on behalf of Government, viz, the Advisory Board, specifically thought of the question of interconnection as one of those which needed further investigation through the MRTP Commission. It was my view that when a reference has been made to the Com-

mission for a further enquiry, and when this specific point of possible interconnection has been mentioned in the minutes of the Advisory Board it was essential that the Commission should examine this question as a part of its investigation. I emphasised that not all cases need to be referred by the Government to the Commission. Where it is considered that a very early decision in the case was essential, and if it could be taken without any special investigation, the Government itself is authorised under the Act to issue orders and not refer the matter to the Commission. It is only where the Government considers that further enquiry is necessary before it can pass orders that it is expected to refer the case to the Commission for such enquiry.

- (4) In view of this, I hold that the Commission should have examined the question of the alleged interconnection. I could not, however, persuade my colleagues about this, and it was decided by majority that the question of interconnection need not be examined in this case. I am therefore recording my disagreement with the majority in this respect.
- (5) Taking into account the restricted nature of the enquiry that was undertaken by the Commission, and on the basis of the data available, to us, I broadly agree with the conclusion reached by my colleagues. It should be stated that it has not been possible for the Commission to obtain any concrete information about existing or potential demand for these items. Import statistics regarding these items are not available even though it is certain that these chemicals are imported in small quantities by actual users. The applicant Company itself expects that uses for these chemicals are bound to develop with further industrial development. The company has however not given any firm indication based on a systematic market survey about the present or potential demand for the items.
- (6) Regarding the evidence available to the Commission about the market behaviour of the Company, it has already been pointed out that the Commission did not issue any public notification inviting comments. Enquiries were however made with the main consumers. The only consumer who had some reservations about the market behaviour of the Company was M/s. Hindustan Photo Films. A copy of their letter is appended to this Minute (Annexure B).
- (7) However, in view of the small amount of capital investment involved and the fact that there are no other contending applicants, I see no harm in permitting the applicant Company to produce these items.

New Delhi June 30, 1971.

(Sd.) H. K. PARANJAPE

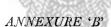
MONOPOLIES AND RESTRICTIVE TRADE PRACTICES COMMISSION NEW DELHI

Annexure 'A' to the report of the Commission under Section 21(3) (b) of he Monopolies and Restrictive Trade Practices Act, 1969 in the case of M/s. Mettur Chemicals & Industrial Corporation Limited, Salem (Tamil Nadu)

The application under Section 21(2) of the Monopolies and Restrictive Trade Practices Act, 1969 submitted by Messrs. Mettur Chemicals and Industrial Corporation Ltd., Salem (Tamilnadu), to the Central Government for permission for substantial expansion of its activities, was referred to the Monopolies & Restrictive Trade Practices Commission by the Government of India, Department of Company Affairs, vide letter No. 1/14/71/M(I) dated the 2nd March, 1971 and this was received in the Commission's Office on the same day. In terms of Section 30(2) of the M.R.T.P. Act, the Commission is required to make its report within 90 days from the date of receipt of the reference in the Commission's Office. This period of 90 days expires on the 30th May, 1971.

- 2. For the reasons mentioned below the Commission is of the opinion that the report cannot be made by it within the said period of 90 days:—
 - (i) By letter No. 1(5)-Enq./71 dated 24th April, 1971 the applicant company was asked to furnish information on the points mentioned in this letter by the 5th May, 1971. It was expected that this information would be received by this date and it would be possible for the Commission to finalise the report before one of the Members proceeded on

- leave for one month with effect from the 17th May, 1971. However, the company vide its letter dated the 4th May, 1971 requested for time to submit the relevant information till the 20th May, 1971 and the required information was received in the Commission's office on the 19th May, 1971 only. In view of this position it was not possible for the Commission to finalise its report before one of its Members proceeded on leave.
- (ii) The Commission addressed one letter to the Secretary to the Government of India, Ministry of Industrial Development and Internal Trade (Deptt. of Industrial Development) calling for information on some points on the 15th March, 1971. The reply to this letter has not been received so far.
- 3. In view of the above circumstances, it has become necessary to extend the period of 90 days for furnishing the report. In exercise of the powers conferred on the Commission under subsection (2) of section 30 of the Monopolies and Restrictive Trade Practices Act, this period for furnishing the report to the Government is extended upto 30th June, 1971.



MONOPOLIES AND RESTRICTIVE TRADE PRACTICES COMMISSION NEW DELHI

Copy of letter No. SP/A/3923/B dated 18th June, 1971 from Shri P. Krishnan Kutty, Head-Purchase and Store of M/s. Hindustan Photo Films Manufacturing Company Ltd., Indu Nagar, Ootamund-5 to the Deputy Secretary, Monopolies & Restrictive Trade Practices Commission, Bharat Scouts & Guides Building, 16, Ring Road, Indraprasta Estate, New Delhi

Sub: Enquiry under Section 21(3) (b) of the Monopolies and Restrictive Trade Practices Act, 1969

Kindly refer to your letter No. 1(5)-Enq./71 dated 29/31 May 1971 on the above subject.

- 2. We are obtaining our requirements of methylene chloride (which is one of the important raw materials required for our production) from September 1967 onwards from M/s. Mettur Chemicals & Industrial Corporation Ltd., Mettur Dam R.S. who started indigenous production of the same from 1967 onwards. (Prior to this, we had been importing this product).
- 3. The quality of the methylene chloride supplied by this firm is uniformly good and satisfactory and compares to that of the imported product.
- 4. M/s. Mettur Chemicals & Industrial Corporation Ltd., being the sole indigenous manufacturer of methylene chloride to our specification; it is not possible to compare their rates with that of any other indigenous manufacturer. However, the rate of imported methylene chloride is compared as below:
- 5. In September 1970, we had obtained an offer from M/s. Hochest Dyes & Chemicals Ltd., for the imported methylene chloride from West Germany, at which time they had indicated a rate of D.M. 99 per 100 kgs. C.I.F. MADRAS, i.e. Rs. 204.93. Taking into account the rate of customs duty @ 100%, the site value will be about Rs. 420 per 100 kgs. or Rs. 4.20 per kg. At that time, we were paying to M/s. Mettur Chemical & Industrial Corporation Ltd., a rate of Rs. 4.39 per kg. naked, ex-works, Mettur Dam plus Rs. 65/- per tonne, freight charges for delivery at our site. This will work out to Rs. 4.45 per kg. exclusive of Sales tax.

6. For the supply during 1971-72, M/s. Mettur Chemicals have indicated an increased price of Rs. 4.45 per kg. ex-works, Our requirements of this product for the year would be about 1,400 tonnes. In view of the large requirements of this major item, we are anxious to obtain a reduced price than the offer they have now made. Preliminary discussions with the firm revealed the reluctance on the part of the firm to offer a reduced price. We, however, are still negotiating with the firm with a view to get some reduction in the rate quoted.

BEFORE THE CENTRAL GOVERNMENT

In the matter of a Notice under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969 from the Mettur Chemical and Industrial Corporation Limited.

The Mettur Chemical and Industrial Corporation Ltd., Mettur Dam, (Tamil Nadu) gave on the 7th January, 1971 a Notice dated the 24th December, 1970 under section 21 of the Monopolies and Restrictive Trade Practices Act of its proposal to effect substantial expansion in the manufacture of the following new goods which fall under the group 'Inorganic Heavy Chemicals' with the annual installed capacity shown against each item:—

(i) Silicon Tetrachloride 600 tonnes

(ii) Estors of Silicic acid such as Ethyl Silicate, Methyl Silicate, Butyl Silicate and Octyl Silicate and their Polymers and Copolimers

600 tonnes

(iii) Silico Chloroform (Trichloro Silane and other Silannes)

3 tonnes

- 2. The applicant company has registered itself under section 26 of the Monopolies and Restrictive Trade Practices Act as a "dominant undertaking" within the meaning of section 20(b) (i) thereof. It is a dominant undertaking in the manufacture of Stable Bleaching powder, Methyl Chloride, Methylene-Di-Chloride, Chloroform and Carbon Tetra Caloride.
- 3. The estimated cost of the project is Rs. 4.75 lakes of which the import requirement will be Rs. 1.00 lakes. The cost of expansion is to be financed from the depreciation funds.
- 4. The Central Government, on the basis of the information available, were of opinion that no order under section 21(3) (a) of the Monopolies and Restrictive Trade Practices Act, according approval to the proposal for expansion, could be made without a further inquiry. Accordingly, in exercise of the powers conferred under clause (b) of sub-section (3) of section 21 of the Monopolies and Restrictive Trade Practices Act, the Central Government referred the application of the Company to the Monopolies and Restrictive Trade Practices Commission for inquiry and report.
- 5. The Monopolies and Restrictive Trade Practices Commission by its majority opinion recommended approval of the proposal of the Company.
- 6. Two advertisements were published by the applicant company, one in "The Hindu" dated the 12th February, 1971 and the other in "Indian Trade Journal" dated the 10th March, 1971. No representation in response to these advertisements were received from any persons. An opportunity of being heard under section 29 of the Monopolies and Restrictive Trade Practices Act, 1969 was given to the company which send a written representation (dated July 15, 1971).
- 7. On the basis of the particulars contained in the Notice and having taken into consideration the recommendations of the Monopolies and Restrictive Trade Practices Commission the Central Government are satisfied that the proposed expansion and the scheme of finance is not likely to lead to the concentration of economic power to the common detriment and is also not likely to be prejudicial to the public interest for the following reasons:—
 - (i) The three chemicals proposed to be manufactured by the applicant company are essential for various industries, and there is no substantial manufacturer of these chemicals in the country.

- (ii) Even the small units, which are producing some quantity of these chemicals have to depend upon imported raw materials.
- (iii) The applicant company, by virtue of its position in the supply of Chlorine and its previous contact with the Indian Institute of Science, Bangalore, is in a position to manufacture at a relatively low capital outlay.
- (iv) The manufacture of these chemicals by the applicant company will lead to the saving of imports;
- (v) The manufacture of these chemicals would also lead to the furtherance of Industrial development in various branches of the industry in the country.
- (vi) The amount of actual investment being small in relation to the capital assets of the applicant company itself, the permission to expand is not likely to make any significant addition to the concentration of economic power in the hands of the company.

Central Government are accordingly, satisfied that it is expedient in the public interest to accord approval to the proposal for expansion of the applicant company.

ORDER

The Central Government, in exercise of its power under clause (c) of sub-section (3) of section 21 of the Monopolies and Restrictive Trade Practices Act, hereby approves the proposal of M/s. Mettur Chemical and Industrial Corporation Limited for effecting substantial expansion by the manufacture of the three items of "Inorganic Heavy Chemicals" referred to in the Notice dated the 24th December, 1970, on the basis of the scheme of finance contained in the said Notice.

(Sd.) H. D. PANJWANI

Under Secretary to the Government of India

F.No. 1/14/71-M(I)(III)

Department of Company Affairs

New Delhi Dated the 27th September, 1971

सन्धमन जयन

REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF NEESHA AND COMPANY, BOMBAY



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REPORTS OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES COMMISSION UNDER SECTION 21(3) (b) OF THE MONOPOLIES AND RESTRICITVE TRADE PRACTICES ACT, 1969 (54 of 1969) IN THE MATTER OF MESSRS. NEESHA & CO., BOMBAY

Reference No. 2 of 1971 from the Government of India, Department of Company Affairs, New Delhi

By its letter No. 15/24/70-M(B) dated 1-2-1971 the Government of India, Department of Company Affairs, New Delhi, referred to the Commission for further enquiry and application made by Messrs. Neesha & Co., Bombay, dated 15th December, 1970, under sub-section (1) of section 21 of the Monopolies and Restrictive Trade Practices Act, 1969, for permission to effect a substantial expansion of its activity. The application was received in the Commission's office on 8-2-1971.

- 2. As the exact scope of the project was not clear from the material received from the firm, the firm was asked by a letter dated 12-2-1971 to depute a representative to appear before the Commission and to explain the scope of the project. The Director General of Technical Development was also requested to give information to the Commission on the following points:
 - (1) Whether capacity for the production of the items mentioned in the application already existed in the country and, particularly in the Bombay area, to a sufficient extent;
 - (2) Whether the requirements of this firm could be easily satisfied either by other producers or by small independent producers who might come into existence for meeting this demand; and
 - (3) Whether there was anything special in the nature of the products which made it necessary that it should be produced by the applicant undertaking which was an inter-connected undertaking of a large business group.

A copy of the reply dated 19-2-71 from the Director General, Technical Development is annexed to this report. The Director General, Technical Development, has stated that most of the items proposed to be manufactured by the firm were eminently suited for small/medium scale firms and were actually produced by a number of small scale units in the country and there was no special reason as to why a firm which was interconnected with a large industrial group should go in for the manufacture of such items. The Development Commissioner, Small Scale Industries, Ministry of Industrial Development and Internal Trade, has also expressed a similar view. A copy of his letter is also annexed to this report.

- 3. The Commission put the same questions to Shri Sunit C. Khatau who appeared before the Commission on 1st March 1971, on behalf of the applicant firm. He also confirmed that diesets, V. Blocks & Clamps were small items required by engineering concerns and they were manufactured by a number of other concerns. As regards the Second Operation Lathes, also, he agreed that these lathes were being manufactured by a number of persons and that machine jobs were being undertaken by many persons in the Bombay area. He candidly admited that the idea behind the proposal to manufacture such small items was to give some independent business experience to his younger brother, Shri Kiran C. Khatau, who had recently graduated. He also stated that even though these items were small items manufactured by many other parties, the applicant firm hoped to produce quality goods which would compmand a good sale with the backing of the name of Khataus.
- 4. Scheme of Finance. It had been stated in the original proposal that the investment required for the proposal would come almost entirely from public financial institutions as shown below:

	•			_	4.00 lakhs
(iv) Deferred loan from Central Bank	•	•	•	•	0.75 lakh
(iii) Loan from SICOM	•	•			1.00 lakh
(ii) Credits from Central Bank					1.00 lakh
(i) Term loan from Central Bank	•	•	•		1.25 lakhs

Internal finance was to be provided only to the extent of Rs. 20,000 by one of the partners, viz., M/s. Shantikiran Pvt. Ltd., The other partners were stated to be unable to produce any funds for the scheme. In its letter received in the Commission's office on 19-2-71, the firm revised its original stand and stated that Rs. 1.7 lakhs would be borrowed from the Central Bank, Rs. 1 lakh from SICOM and Rs. 2.55 lakhs would be provided by the four partners as stated below:

					Rs.	2,55,000
(iv) M/s. Shantikira	n Pvt. Ltd.	•	•			50,000
(iii) Shri Kiran C. I	Khatau .					75,000
(ii) Shri Sunit C. K	Chatau .		•	•		75,000
(i) Shri Chandraka						

- 5. The Commission has examined the material submitted by the applicant firm to the Government as well as the information given to it by Shri Sunit C. Khatau. It has also taken note of the information given by the Director General, Technical Development, and the Development Commissioner, Small Scale Industries. On the basis of an examination of these, the Commission has come to the following findings:
 - (a) The applicant firm is admittedly interconnected with 36 other concerns, the total value of assets of the interconnected group of undertakings being Rs. 26.69 crores. Shri Kiran C. Khatau, for whose benefit it is proposed to effect the substantial expansion, is himself a Director in the following six concerns:
 - 1. Keming Tools Co. Pvt. Ltd.
 - 2. Sukiran Pvt. Ltd.
 - 3. Shantikiran Pvt. Ltd.
 - 4. Shantileena Pvt. Ltd.
 - 5. Khatau Brothers Pvt. Ltd.
 - 6. The Pearl Thread Mills Pvt. Ltd.

It is thus seen that he is a member of a business group which already wields considerable economic power.

- (b) The substantial expansion for which the applicant company has applied cannot be said to effect any technical or technological improvement in trade and expansion of existing markets as envisaged in clause (d) of section 28 of the Monopolies and Restrictive Trade Practices Act, 1969. The proposal also does not have any other redeeming feature such as the creation of a large employment potential or helping the development of backward regions. On the other hand, the items that are proposed to be produced as well as the machining capacity that is proposed to be established are likely to lead to competition with a number of small or medium producers who are independent entrepreneurs. The permission to carry out this substantial expansion is thus likely to go against the consideration put down in clause (e) of section 28----"to encourage new enterprises as a countervailing force to the concentration of economic power to the common detriment."
- (c) It is also to be observed that even in the revised scheme of finance, more than half of the capital requirements is expected to be met from public financial institutions, thus drawing upon a source which is common to the large business groups and the small and medium entrepreneurs.
- 6. In view of the above findings, it is the Commission's view that the proposal of the applicant firm cannot be recommended for acceptance by Government.

(Sd/-) (H.K. PARANJAPE)

Member

(Sd/-) (D. SUBRAMANIAN)

Member

I have appended a dissenting note.

(Sd/-) (A. ALAGIRISWAMI)

Chairman

Dissenting note of Shri Justice A. Alagiriswami, Chairman M.R.T.P. Commission, in the case of M/s. Neesha and Co., Bombay—Reference No. 2 of 1971—from the Government of India, Department of Company Affairs, New Delhi, under section 21(3) (b) of the M.R.T.P. Act, 1971.

"I am sorry I am unable to see eye to eye with my colleagues. To think that a business with a capital of about Rs. 5 lakhs, even though started by a member of a family which belongs to a large industrial house, could lead to concentration of economic power to the common detriment or is likely to be prejudicial to the public interest in any manner, seems to me to deprive those words of their legitimate meaning. In considering such matters we must show a sense of sobriety as well as a sense of proportion. The undertaking proposed to be started is not important either in itself or relatively to the industry in which it would be engaged; or even relatively to the extensive business interests of the Khatau family. Needless to say, in the matter of concentration of economic power in the country, its importance will almost be infinitesimal. 1 do not think the licence should be refused.

(Sd/.) A. ALAGIRISWAMI Chairman.

15th March 1971

ANNEXURE TO THE REPORT UNDER SECTION 21(3)(b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1971 IN THE CASE OF M/S NEESHA AND COMPANY, BOMBAY

Copy of letter No. DT-1/12/(53)/71/795 dated 18th/19th February, 1971 from the Directorate General of Technical Development, Udyog Bhavan, New Delhi

To

The Monopolies & Restrictive Trade Practices Commission, Bharat Scouts & Guides Building, 16, Ring Road, I.P. Estate, NEW DELHI.

Attention: Shri T.N. Pandey, Deputy Secretary

DEAR SIR,

Please refer to your letter No. 1(2)-ENQ/70 dated the 12th February 1971 regarding the proposal of M/s. Neesha & Co. for expansion. Our comments on the various points raised by you are given below:—

- 1. The firm proposes to manufacture a number of items which have no co-relation. There are a few firms manufcturing die sets (presumably, the firm refers to blank press tools and die sets only). Such die sets are already being manufactured by one or two firms in the Bombay area itself Regarding the second item, namely, V. Block & Clamps, these are eminently suited for manufacture in the small scale and there are a number of small scale firms in the country manufacturing these items Regarding the third item, this activity seems to be purely to jobbing basis and at present there are a very large number of small scale workshops engaged in such activity all over the country including Bombay area. Regarding the last item, namely, second operation lathes, these are being manufactured by a few small and medium scale firms in the country. However, there are no regular manufacturers of this item in the Bombay area.
- 2 & 3. As stated above, most of these items are eminently suited for small/medium scale firms and are already being produced by a number of firms in the country. There does not seem to be any special reason as to why this firm, which is associated with a large business group, should go in for manufacture of such items.

Yours faithfully,
(Sd.) P. R. LATEY,
Development Officer (Tools).

ANNEXURE TO THE REPORT UNDER SECTION 21(3)(b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1971 IN THE CASE OF M/S NEESHA AND COMPANY, BOMBAY

Copy of letter No. 12(1)71-Engg dated 3rd March, 1971 from the Office of the Development Commissioner (Small Scale Industries), Ministry of Industrial Development, Internal Trade Company Affairs, Nirman Bhavan (South Wing), 7th Floor, Maulana Azad Road, New Delhi-11

To

Shri T.N. Pandey,
Deputy Secretary,
Monopolies & Restrictive Trade Practices Commission,
Bharat Scouts & Guides Building,
Indraprastha Estate, 16, Ring Road,
New Delhi-1.

DEAR SIR.

Kindly refer to your letter No. 1(2)-Enq/71 dated 12th February 1971 desiring this office to submit certain information required for processing the case of M/s. Neesha & Co., Bombay. In this connection, it may be informed that the two items stated by the party viz., Die Sels and V. Block & Clamps can be undertaken by the small independent units. There is huge capacity available for Machining jobs to customers' specification. As far as Second operation lathes are concerned, there are a few units in the Western Region but there are about 200 units in the Northern Region located at Ludhiana and Batala, who can meet the requirements of the unit very easily. It is considered that it is technically feasible and economically viable to manufacture such items in the small scale sector. The party M/s. Neesha & Co. should not find any difficulty to cater to his requirements from the small scale ancillary units.



Yours faithfully,

(Sd.) S. RAGHAVIAH,

Director (Engg.)

for Development Commission

(S.S.I.)

BEFORE THE CENTRAL GOVERNMENT

In the matter of Notice dated 4-12-1970 under section 21(1) of the Monopolies and Restrictive Trade Practices

Act (Act No. 54 of 1969) from M/s Neesha and Company for effecting substantial expansion.

M/s. Neesha and Company, Bombay, gave on 15-12-70, notice under sub-section (1) of section 21 of the Monopolies and Restrictive Trade Practices Act, 1969, of their proposal to effect substantial expansion by carrying on new business in engineering industry by manufacturing the following items:—

		Items								-	Annual ca insta	pacity to be lled
											Quantity	Value
											Nos.	(Rs. in lakhs)
(i)	Die-sets	•				•					600	1.8
(ii)	V. Block	& clam	ıps		٠				•		600	0.9
(iii)	Machine	Job to	custo	omers'	spec	ificati	on as	requir	ed	•		0.9
(iv)	Second o	peratio	n La	thes	•		•		•	•	36	1.8

- 2. The applicant is a partnership firm having the following partners:—
- (1) Shri C. M. Khatau
- (2) Shri S. C. Khatau
- (3) Shri K. C. Khatau
- (4) M/s. Shanti Kiran Private Limited.

The firm had an aggregate fixed capital of Rs. 10,000 and it is engaged in the production of household gadgets. The product marketed is cloth-cum-hungers of different sizes.

3. The applicant belongs to 'Khatau Group' which is included by the Industrial Licensing Policy Inquiry Committee in the list of Large Industrial Houses. The firm has admitted interconnection with 36 other undertakings of the "Khatau Group", having assets of the value of Rs. 26.70 crores. The applicant company is registered under section 26 of the Monopolies and Restrictive Trade Practices Act, 1969 as an undertaking falling under section 20(a) (ii). The estimated cost of the proposed expansion is Rs. 4.80 lakhs. It is stated that M/s. Shantikiran Private Limited one of the inter-connected undertakings, which is also one of the partners, would contribute Rs. 20,000. Loans of the extent of Rs. 4 lakhs are proposed to be raised as under:—

	Nature of loan	Amount	Source
		(Rs. in lakhs)	
1.	Term loan @ 10% interest re-payable over 5 years	1.25	Central Bank
2.	Cash Credit interest @ 10%	1.00	Do.
3.	Deferred payment loan Interest @ 10%	0.75	Do.
4.	Loan against pledge of shares of partner company @ 11%	1.00	SICOM
	Total .	4.00	-

The Scheme still left a gap of Rs. 60 lakhs unexplained. Though the firm had 36 interconnected undertakings it did not expect to be helped financially by any of them. Bulk of the nance required for the expansion project was proposed to be secured from Banks and other financial institutions. The Central Government, on the basis of information available with it, was of the opinion that the order according approval of the proposal of the expansion under section 21(3) (a) of the Monopolies And Restrictive Trade Practices Act could not be made without a further inquiry. Accordingly, it referred the application to the Monopolies and Restrictive Trade Practices Commission for an inquiry and report. The Commission by its majority opinion findings recommended rejection for the following reasons:—

- (a) The applicant firm is admittedly interconnected with 36 other concerns, the total value of assets of the interconnected group of undrertakings being Rs. 26.69 crores. Shri Kiron C. Khatau, for whose benefit it is proposed to effect the substantial expansion is a Director of six companies and is a member of a business group which already wields considerable economic power.
- (b) The substantial expansion for which the applicant has applied, cannot be said to effect any technical or technological improvement in trade and expansion of existing markets as envisaged in clause (d) of section 28 of the Monopolies and Restrictive Trade Practices Act, 1969. The proposal also does not have any other redeeming feature such as the creation of a large employment potential or helping the development of backward regions. On the other hand, the items that are proposed to be produced as well as the machining capacity that is proposed to be established are likely to lead to competition with a number of small or medium producers who are independent entrepreneurs. The permission to carry out this substantial expansion thus likely to go against the consideration put down in clause (e) to section 28- to encourage new enterprises as a countervailing force to the concentration of economic power to the common detriment.

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- (c) It is also to be observed that even in the revised scheme of finance, more than half of the capital requirements is expected to be met from public financial institutions thus drawing upon a source which is common to the large business groups and the small and medium entrepreneurs.
- 4. At the hearing, under section 29 representative of the firm offered to revise the scheme of finance to the extent of providing 50% of the project cost from its internal resources. In other words, the applicant firm would bring in approximately another Rs. 5,000/- only in addition to Rs. 2,55,000/- agreed to before the Commission. The project, therefore, heavily relies upon public finance.
- 5. The Central Government accepts the majority opinion of the Monopolies and Restrictive Trade Practices Commission for the following reasons:—
 - (a) The applicant firm is admittedly inter-connected with 36 other undertakings and Shri Kiran C. Khatau, for whose benefit it is proposed to effect substantial expansion, is himself a Director of six other companies.
 - (b) The project relies upon public financial institutions.
 - (c) According to the Director General of Technical Development the item of manufacture is eminently suited for small/medium scale manufacturers. In the circumstances, approval of the proposal would be against the public interest in as much as it may go against the interest of small scale units which are meant essentially for producing items of the type for which approval is sought.
 - (d) The permission to carry out the expansion is likely to go against the consideration of clause (e) of section 28, viz., "to encourage new enterprises as a countervailing force to the concentration of economic power to the common detriment."

In the circumstances, the proposal of M/s. Neesha and Company is rejected.

ORDER

The Central Government, in exercise of its powers under clause (c), sub-section (3) of section 21, of the Monopolies and Restrictive Trade Practices Act, 1969, for the reasons stated in the foregoing paragraphs, hereby rejects the proposal of M/s. Neesha and Company as contained in the Notice dated December 4, 1970.

(Sd.) H. D. PANJWANI,

Under Secretary to the Government of India

Department of Company Affairs.

New Delhi Dated the 14th September, 1971.

REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF PHILIPS INDIA LIMITED, BOMBAY





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INTRODUCTION

- 0.01 Philips India Limited (hereinafter referred to as 'PIL'), Bombay, submitted to the Government of India, Department of Company Affairs, on March 21, 1974, an Application under sub-section 2 of Section 21 of the Monopolies and Restrictive Trade Practices Act for approval of its proposal for effecting substantial expansion in the manufacture of General Lighting Service lamps (GLS lamps) and Fluorescent Tube lamps (FT lamps). The Department of Company Affairs vide its letter No. 1/13/74-M (III) dated July 17, 1974, referred the said Application to the Monopolies and Restrictive Trade Practices Commission under clause (b) of sub-section (3) of Section 21 of the MRTP Act for enquiry and report.
- 0.02 The Commission issued a Notification on July 20, 1974, which was published in various newspapers on or about July 29, 1974. The Commission through this Notification invited information and comments regarding PIL's expansion proposal.
- 0.03 In terms of sub-section 2 of Section 30 of the MRTP Act, the Commission was to submit its Report to the Central Government by October, 15, 1974. However, the date for submission of the Report had to be extended thrice. In the first instance, it was extended upto December, 31, 1974, as the data and information from the Applicant Company, the concerned Government Departments and some of the existing GLS and FT lamp manufacturing units were not received. A questionnaire was sent to PIL on August 9, 1974 and it was asked to furnish information by September, 7, 1974. PIL asked for extension of time and filed its reply on November 29, 1974. After studying the reply, certain clarification and additional information were sought from the Company by a letter dated December 13, 1974, and the Company was requested to furnish the supplementary information by January 3, 1975. This necessitated a further extension regarding the date of submitting the Report to the Central Government to February 28, 1974. However this information was actually submitted by PIL on February 1, 1975. As a consequence of this delay, the date for submission of the Report had to be extended for the third time to March 31, 1975.
- 0.04 The Public Hearing in this case was held on March 13 and 14, 1975. The names and addresses of the persons who attended the Public Hearing are given in Appendix I.





CHAPTER I

THE APPLICANT COMPANY*

Philips (Holland)

- 1.01 PIL's parent Company, N.V. Philips' Gloeilampenfabrieken [(Philips (Holland)] is one of the multi-national giants in electrical and electronics industry. Philips (Holland) commenced its operations in 1892 as a producer of carbon filament lamps. Right from the beginning it enjoyed a monopolistic position in Holland in respect of lamps. Almost all through its long history, its growth has been phenomenal. While it was the third largest manufacturing unit in Europe in 1903, it emerged as the largest incandescent lamp producer in Europe at the outbreak of the First World War. Philips (Holland) is the largest lamp producing concern in the world. In 1972 and 1973, it was the thirteenth largest company among the fifty largest industrial companies in the world as ranked by sales. During the same period, it ranked third (in terms of sales) among the 300 largest industrial companies outside the USA. Philips (Holland) is the single largest electrical company outside the USA. Its total annual assets and sales at the end of 1973 were valued at \$ 8.56 thousand million and \$ 8.11 thousand million respectively. Its net in come for the same year was \$ 323.10 million.¹
- 1.02 While Philips (Holland) commenced its activities by producing, selling and exporting GLS lamps, it has diversified its activities to such an extent that by now it has emerged as a giant multi-product, multi-national, electrical and electronics company producing hundreds of products which include raw materials, parts and components and finished end-products. The end products range from an elementary item light-bulbs to electronic computers. The major product-divisions of the Company, under each of which are included dozens of products, are: lighting, domestic appliances; radio, gramophones and television equipment: electronic components and materials; electroacoustics; tele-communications and defence systems; data systems; industrial equipment; medical systems; Pharmaceutical-chemical products; glass; music (joint venture with Siemens A.G.); and allied industries.
- 1.03 Among other things, its extensive as well as intensive R & D Work has helped Philips to expand and diversify and at the same time continuously bring about technological improvements. "At the concern's headquarters, in Endhoven, Holland, Philips operates one of the world"s leading research centres enabling the company to maintain its position as manufacturer of some of the most sophisticated electronic equipment available."²

As an example, take the case of glass. According to Philips (Holland): "The glass development Centre was opened in 1958 to co-ordinate research and development in the glass field. The latest innovation in the field of mechanising the production of standard glass bulbs is the new factory. In lommel, Belgium, which was set up in conjunction with other European lamp manufacturers. In this factory, 40,000 light bulbs per hour are produced by one machine. With this production it will be possible to meet almost the entire European market demand for the most commonly used types of bulbs." The glass products division of Philips produces about 150 types of glass, principally for incandescent lamps and television screens. The R & D expenditure of Philips (Holland) amounts to 7% of its sales.

1.04 Philips (Holland) established its first subsidiary company outside Holland in 1919 By 1930 it had established 27 companies in as many countries, including the one in India, in all parts of the world mostly in Europe. At present Philips (Holland) has organisations in about 65 countries and it undertakes manufacture of goods in about 50 countries. Besides the more than

^{*} For further details about Philips (Holland) see chapter I of this Commission's Report on the proposal of Philips India Ltd., for establishing a new undertaking for the manufacture of Electro-Medical Equipment (October, 1974) Certain Portions of that Report have been reproduced here with upto date, data, wherever available.

 ⁽i) The Fifty Largest Industrial Companies in the World (Ranked by Sales), Fortune, August 1974 p. 185 and
 (ii) The 300 Largest Industrial Companies Outside the U.S. (Ranked by Sales), Fortune, August, 1974, P. 176.

^{2.} Product Systems, Project, N.V. Philips, Gloeilampenfabrienken Eindhoven, the Netherlands (inside cover).

^{3.} Facts about Philips, N.V. Philips' Gloeilampenfabrienken, Eindhoven, the Netherlands, 1970, P. 20

^{4.} Evaluation and Adaptation at Philips; A Case Study, Multinational Business, Economist Intelligence Unit, February 1972, P. 47.

^{5.} Jane's Major Companies of Europe, 1973, P. DI. 67.

- 1.05 In its own words "Philips (Holland) may rightly be called a highly integrated multinational operation.... Is basic uniqueness in the business world and as compared with other big companies lies in the fact that it has no "home market" of any size. The Netherlands is a well developed but very small market. The company has always been obliged to seek its strength in exporting and to be truly international." It may also be noted that "by the end of 1969, the Concern [Philips, (Holland)] was employing some 300,000 people, more than two-thirds of the outside the Netherlands." In 1973, the total employment in the Philips Group of Companies was reported to be over 4,00,000 persons. In Philips "there are now over 20,000 products and product component assemblies whose world wide distribution is co-ordinated from Netherlands." "11
- 1.06 Philips (Holland) is responsible for evolving and persuing the world-wide co-ordination of production and sales for each and every product. "Viewed from outside, Philips is organised on a country-wise basis. Each national organisation is primerily a sales organisation. As far as possible, they implement their own national policy.... Philips operates on international basis however, and so they consequently pursue a world-wide marketing policy. The Concern Centre (at Eindhoven) is responsible for formulating clearly these world-wide policies and for co-ordinating plans for the various N.Os.. (National Organisations).... The Concern Centre deals with all kinds of subjects and problems relating to all goods and all countries. In the forefront stands world-wide co-ordination of production and sale of every product. Hence, the Concern is primarily organised on a product and not an (sic) a country basis.... The Concern Centre has been set up to promote Philips success throughout the world and to ensure the unity of the world-wide organisation. Continual, well organised contact between the Concern Centre and the managements of the N.Os. is of prime importance.... To overcome this problem, N.Os. have a representative, an "ambassador" at the concern Centre. These "Embassies" are called Regional Bureaux, and consist of a number of small bureaux each promoting at the Centre the interests of one or more N.Os. The summit of the Philips Organisation is the Board of Management.... This Board frames an formulates the enterprise's universal basic policy, appoints the Managers in the Centre and in various countries, and is the final decisive authority.... The entire organisation has been welded into a powerful structure, playing a dynamic role in swiftly advancing world society." The fact that among the various Regional Bureaux establihed at Eindshoven, India is the only country for which there is an exclusive bureau may indicate the importance which Philips (Holland) attaches to this country in its world-wide operations.

Philips India Limited

1.07 PIL was initially incorporated on January 31, 1930, as a private limited company under the Indian Companies Act, 1913, with the name of Philips Electrical Company (India) Limited. This name was changed to Philips India Private Limited on September 12, 1956. It was converted into a public limited company on October, 31, 1957. At that stage a part of the equity was made available to Indian shareholders. At present, 60% of the equity shareholding of PIL is in the hands of N.V. Philips Gloeilampenfabrieken, Holland. In its early years PIL engaged itself in the marketing of the products of its parent company. The products marketed were mainly electric lamps and radio receivers. In 1953, PIL began in their Calcutta factory the assembling of some components of radio receivers. From 1958, the Company undertook the production of some components in its new factory at Loni (Poona). Over the years, the production of radios and electronic components has increased significantly and new types of components including professional grade componedts have been included in the Company's production range. In 1960, PIL acquired the

^{6.} Facts about Philips, Op. ci. P.57

^{7.} Evaluation and Adaptation at Philips, opt. ct., P. 46

^{8.} Facts About Philips, op. cit.,p. 38

^{9.} Ibid., p. 22

^{10.} The Fifty Largest Industrial Companies in the world (Ranked by Sales), Fortune, August, 1974. p. 185.

^{11.} Evaluation and Adaptation at Philips, op. cit., p. 48.

^{12.} Facts About Philips op. cit pp. 38-42 and 55-59.

lamp factory earlier owned by Osler Electric Lamp Manufacturing Limited and thereafter consolidated arrangements for manufacture of lamps in a fully integrated factory established at Kalwa (Bombay). In 1965, a new factory was set up at Calcutta for the manufacture of transistorised portable trans-receivers for use by the Central Government. The same unit has also been undertaken production of certain electronic equipments for the Defence Ministry. In 1969 the Company acquired another factory at Kalwa for the manufacture of welding electrodes. In 1970, a new factory was established at Pimpri (Poona) and the manufacture of radio sets was transferred from the Loni factory in Poona to this one so as to enable the Loni factory to concentrate on the production of components. Thus, at present PIL has seven factories in different parts of India. It has also built up a strong marketing organisation. PIL has claimed that integration of production processes and progressive import substitution aided by Research and Development have been the keynote of its policy over the decades.

- 1.08 The range of components manufactured by PIL covers various types of resistors and capacitors (both fixed and variable), loudspeakers, coils, switches, battery motors, and voltage level indicators. Further, its production range now includes radio receivers, fluorescent lamps, starters, burners for gaseious discharge lamps, lighting fixtures, record players, electrical measuring apparatus, quality control equipment and scientific instruments, trans-receivers, public address systems, communication systems and welding electrodes. PIL also manufactures lamp components, tungsten. and molybdenum wires and coils, glass shells, glass tubing, fluorescent power and diamond dies.
- 1.09 Interconnection.—PIL has admitted interconnection with Electric Lamp Manufacturers (India) Private Limited, under Section 2(g)(iii)(c) of the M.R.T.P. Act by virtue of its being under the same management within the meaning of Section 370 of the Companies Act, 1956. Philips (Holland) holds 60% of the share capital of PIL and 35.35 per cent of the share capital of Electric Lamp Manufacturers (India) Private Limited.
- 1.10 Electric Lamp Manufacturers (India) Pvt. Limited was incorporated on November, 12, 1938. Its present authorised capital is Rs. 60.0 lakhs and issued and subscribed capital is Rs. 55.0 lakhs. The interconnected company is engaged in the manufacture of flourescent lamps, G.L.S. Lamps, special lamps and lamp components.
- 1.11 Management.—PIL is managed by a Board of Directors, most of the Directors being wholetime engaged in the work of the Company. Three Directors, the Chairman-cum-Managing Director, Director of Finance and Administration, and Technical Director are foreign (Dutch nationals) and five are Indians. Of the latter, four are wholetime Directors. Two directors are in charge of marketing, one in charge of Personnel and Industrial Relations and one is designated as Industrial Director and located in Delhi.
- 1.12 The Chairman and Managing Director of PIL is also the Chairman of the Board of Directors of Duphar-Interfran Limited and Electric Lamp Manufacturers (India) Private Limited. In addition, he is a director of Hind Lamps Limited and Polydor of India Limited. The director, Finance and Administration, is also on the Board of Directors of Duphar Interfran Limited. It may be noted that PIL upto now has not had an Indian as Chairman-Cum-Managing Director.
- 1.13 As befits a modern Corporation, PIL has a streamlined management organisation.

 It also has a well organised set up for training its employees of different categories including management cadres.
 - 1.4 Growth of PIL.—PIL started in India in a modest way with an authorised capital of Rs. 1.0 lakh and a paidup capital of Rs. 0.45 lakhs. It has grown steadily in size and its growth has been specially rapid in the period since 1957 (See Table 1 below):

TABLE 1
Growth of Capital of PIL

(Rs. lakhs)

•	Year a	ind Da	ate				Authorised share capital	Paid-up share capital
		1				 \	2	3
31-3-1930							1.0	0.45
March, 1932		•	•	•	•	•	1.0	1.00

TABLE 1-Contd.

1							2	3
March, 1936 .				•	•		10.0	7.50
November, 1937		,					10.0	10.00
December, 1937	•			•	•		20.0	10.00
18-2-1950	•			•			50.0	25.00
October, 1957 .	•	•			•		50.0	50.00
October, 1957		•		•		•	500.0	170.00
December, 1957						•	500.0	220.00
December, 1964	•		•	•			500.0	260.00
November, 1966						•	500.0	364.00
May, 1967 .	•						1000.0	364.00
June, 1970 .		•					1000.0	546,00
February, 1973						•	1000.0	679.00
May, 1974 .					and		2000.0	679.00
December, 1974			•	. (2000.0	1358.00

Source: Applicant Company.

- 1.15 As its capital has grown so also have increased its sales as well as the number of persons employed. With the introduction of Indian share-holding, the number of shareholders have also increased significantly (See Table 2). PIL is now said to be one of the 100 largest business corporation in the country.*
- 1.16 Capacity and Production.— The very wide range of PIL's production has already been indicated above. Details regarding its licensed and installed capacity and actual production data for the last five years are given in Table 3.
- 1.17 The data given in Table 3 indicate a somewhat uneven picture. The actual production is very much higher than the so called installed capacity in items like lamps and accessories for fittings. They are significantly higher in the case of electronic components, glass shells, filaments and burners, while in a number of other items, especially public address systems, telecommunications systems, measuring instruments, and medical apparatus, the output is much below the installed and licensed capacities. PIL has explained that the under-utilisation of installed capacity has been mainly due to inadequate market demands and shortage of raw materials.
- 1.18 As part of its programmes of further growth PIL has applied for industrial licences for domestic refrigerators, T.V. receivers, digital electronic measuring instruments, mobile phones, etc. A large number of these applications have been rejected (See Appendix II). It will be indicated from the data in this list that the rejections have been due to different reasons. In cases like semi-conductor devices and also items like refrigerators and T.V. receivers the reason has been that there was no scope for the establishment of further capacity. In some items like transistorised mine detectors and mobile phones the reason has been that the items are reserved for the public sector. In items like digital electronic measuring instruments, professional inter-communication systems, tape deck mechanisms and tape cassettes the reason given was that the items could be manufactured by small entrepreneurs or by wholly Indian manufacturers. In some items like miniature coils and industrial measuring and control instruments the reason is that the capacity sanctioned to PIL is not being fully utilised. In items like glass shells for electric lamps the reason is that PIL had already been manufacturing far in excess of sanctioned capacity.
- 1.19 It needs also to be noted that PIL has on hand expansion programmes which are already sanctioned. The details about these are given in Table 4.

^{*}The Economic Times ("Industrial Giants" Page 1), March 24,1975, rates it at the 63rd. place from the view point of assets.

TABLE 2
Growth of PIL

	1964	1965	1966	1961	1968	1969	1970	1971	1972	1973
Sales (Rs. Million)	113.9	135.4	188.1	234.0	265.5	302.1	376.8	465.6	491.1	504.3
Value of Production Index (1964=100)	100.0	121.8	163.0	208.8	248.6	301.3	384.9	449.3	478.3	470.1
Cost of imported material as per- centage of value of production	8.4	6.4	6.9	8.7	7.5	6.4	4.9	4.9	4.5	4.6
No. of employees at year end	3,714	4,215	5,052	5,087	5,446	6,017	6,587	6,929	7,193	7,495
No. of shareholders at year end .	13,365	14,135	13,945	13,972	13,752	13,492	13,620	13,675	13,698	32,748

Source: Applicant Company.

TABLE 3

Statement of Installed Capacities and Actual Production

Name of the Product			Unit		Licensed	Installed		Actual P	Actual Production			Percent-
					capacity (in Qty.)	Capacity (in Qty.)	1969	1970	1971	1972	1973	age units sation of the instal- led capa- city in
			2		3	4	2	9	7	8	6	10
Electronic Components			000,		100,572	98,952	51,863	89,021	116,785	100,184	142,375	142
Lamps	•				10,500	9,500	22,146	23,458	25,956	23,536	24,113	254
Glass Sheels		•		,	20,000	20,000	23,977	28,567	30,840	33,888	28,779	144
Glass Tubing			. Tons		3,600	3,600	1,492	2,950	3,292	3,084	3,223	06
Fluorescent Powder	•				80	80	65	70	58	63	55	69
Filaments	•		000.		000,09	000,09	83,062	86,769	89,947	80,599	75,098	125
Folv. Wire	•		. Kgs.		2,400	2,400	2,600	2,480	1,062	2,915	2,554	106
Turners		•	,000		150	150	108	215	307	330	218	145
Fittings		٠	. ,		120	180	239	250	148	114	122	89
Acc. for Fittings					4,000	6,529	10,707	11,933	13,990	15,442	14,533	222
Radio Sets*					160	1,000	487	603	763	780	989	69
Record Players					30	30	:	:	28	30	33	110
P. A. Systems	٠	•	. Nos.		3,600	3,600	2,035	2,820	2,883	2,394	1,888	52
Telecom. Defence Systems			. Nos.		1,800	2,400	170	1,100	2,125	2,520	775	32
Welding Electrodes	•	. •	. K. Metres	[etres	18,287	18,287	6,235	13,350	14,428	18,756	15,893	87
El. Measuring Inst.			000,		17,100	14,110	3,200	6,630	4,936	6,851	4,022	23
El. Medical app.			. Nos.		10,815	10,815	1,572	3,547	2,962	4,215	3,260	31

*Figures represent combined production of both Galcutta and Pune Factories. Source: Applicant Company.

TABLE 4
Schemes of PIL under Implementation

S.N	o. Name of the Product	Licensed Capacity	Present stage of implementation	Likely date of start- ing production
1	2	3	4	5
1.	Tape Recorders .	20,000 Nos.	Construction of fact- ory completed. App- lied for capital goods licence. Prototyped develop- ed.	6 months after receipt of C.G. import licence.
2.	Variable Gang Condensers	2.25 million nos.	C.G. licence awaited	6-8 months after receipt of C.G. import licence.

Source.—Applicant Company.

1.20 In addition to the industrial licences already sanctioned to it, PIL has also received certain Letters of Intent. The position in respect of these is given below:

TABLE 5

Letters of Intent Issued to PIL

S.No	Name of the Product	Capacity Sanctioned	Cost of the Project	Progress made
1	2	3 सत्यमेव ज	4	5
1. (Glow Switches	300 lakhs Nos.	19.2	Expected to start production within 12 months after the receipt of industrial licence capital goods licence.
	Inter-communication Apparatus	12,000 Nos.	Rs. 5.81 lakhs	C.G. import licence awaited.
3.	Electronic Components	385 lakhs Nos.	Rs. 227 lakhs	Submitted capital goods licence application. The Company hopes to implement the substantial expansion within 12 months after the receipt of industrial licence.

Source.—Applicant Company.

^{1.21} The details about the applications made by PIL for industrial licences which are pending with the Government are given on Table 6.

TABLE 6
Applications Pending

S. N	o. Industrial/ licence/ application date	Product	Capacity per annum applied for	Location	Remarks
ı	2	3	4	5	6
1.	11-5-1966 .	Electronic instruments	s 6,400 units	Pimpri	
2.	28-1-1970 .	Professional Micro- phones	7,200	Pimpri	
3.	21-9-1970 .	Cardiac Monitoring equipment. Patinent Monitoring system. Cardio & Physio-	200 nos.		
		therapy equipment and Respiration & anaes- thesiology equip- ment	100 nos.	Pimpri	
4.	21-9-1970 .	GLS Lamps T.L. Lamps	9 million (addl.) 2.25 miln. (addl.)	Kalwa	5 mln. and 1 mln. TL per annum for export.
5.	21-8-1972 .	Diamond Drawing Dies.	5,000 nos. (after expansion)	Kalwa	
6.	12-9-1972 .	Record Player Decks	95,000 nos. (after expansion)	Calcutta	Rejected (30-8-1974) Appeal made on (20-9-74).
7.	10-4-1974 .	Carbon Resistors	90 million	Loni (Poona)	75% export
8.	10-6-1974 .	Radio Receivers	300,000 nos. (after expansion)	Calcutta	
9.	17-6-1974 .	Voltage Level Indicators.	1.5 million	Loni (Poona)	100% export
10.	11-7-1974 .	Loud Speakers	2 million	Loni (Poona)	100% export
11.	12-8-1974 .	Electronic Trainers	500 sets	Pimpri	
12.	8-11-1974 .	Amplifier	20000 nos. (addl.)	Pimpri	90% export. applied for change of location to Cal- cutta.
13.	28-11-1974 .	Electronic Compo- nents	166 million (nos. (addl.)) Loni Poona	
14.	6-12-1974 .	Miniature Micro- phones	2 lakh nos.	Pimpri	Applied for change of location to Calcutta.
15.	11-12-1974 .	Multimeters	10,000 nos. (addl.)	Pimpri	100% export
16.	17-2-1975 .	HF Oscilloscope	1,000 nos. (addl.)	Pimpri	

- 1.22 It appears that PIL had also submitted a seven year development plan to the Government in March 1973. The idea apparently was that the various expansion proposals of PIL in different lines—consumer or entertainment electronics, professional electronics and components—should all be considered together so as to examine whether an overall package, which would be beneficial to the country, could be approved. It appears that this approach was not pursued by Government and PIL has been asked to submit individual item wise applications for its expansion projects. The data given above about the applications rejected as well as the expansion proposals would give an indication of the kind of expansions that PIL has in view.
- 1.23 The actual increases in capacities achieved by PIL in certain key items in recent years will be indicated by the data given in Table 7.
- 1.24 Foreign Collaborations.—PIL has entered into collaboration agreements with its parent company, viz. Philips (Holland) for many items currently under manufacture. The agreements usually provide for a lump sum payment as well as a technical service fee based on the net turnover in the concerned items.
 - 1.25 In some of the agreements the following clause is to be found:

"The company undertakes both during the continuance of this agreement and thereafter not to copy the machinery, tools and instruments or any parts thereof supplied by Philips or any subsidiary of Philips to the Company or to cause or permit the same to be copied and not to prepare drawings of such machinery, tools and instruments or parts thereof nor to cause or permit the same to be prepared."

It would thus be seen that the technical information obtained about plant and machinery does not belong to the Indian company even after the agreement has been in operation for a long period and the plant has been operated for a similar period in India.

TABLE 7

Increases in Capacities of Different Items Produced by PIL

Name of the Product	Unit	3035-2016	Capacities after expansion	Percentage of increase	Remarks		
1	2	3	4	. 5	6		
Electronic Components .	'000'	1960	26,546	100			
· •		1969	88,172	232			
		1971	100,572	379			
Lamps	'000'	1960	5,000	100			
<u>-</u>		1965	8,000	160			
	· · · · · · · · · · · · · · · · · · ·	1966	9,500	190			
		1973	10,500	210			
Glass Tubing Tons		1966	1,500	100			
		1971	3,600	240			
Burners	' 000'	1960	120	100			
		1973	150	125			
Radio Sets	'000'	1952	24	100			
		1955	48	200			
		1956	72	300	•		
		1961	108	450			
		1967	140	583			
		1968	390	1625			
		1970	760	3166			

TABLE 7-Contd.

1	2	3	4	5	6
Electronic measuring instru-	Nos.	1960	5,690	100	
ment		1965	6,100	107	
		1970	17,100	301	
Electro-medical apparatus .	Nos.	1960	1,450	100	
The state of the s		1962	11,650	803	
		1971	10,815	746	Capacity had declined in 1971 when compa- red to 1962 figures.

Source.—Applicant Company.

- 1.26 Research & Development.—According to the information furnished by PIL in writing, it has five electronic/electrical Research and Development Laboratories and one Chemical Research Laboratory. These research laboratories are:
 - 1. Electronic Components Development Laboratory
 - 2. Electronic Instruments Development Laboratory.
 - 3. Electro-acoustic Development Laboratory.
 - 4. Radio Development Laboratory.
 - 5. Record Playing Equipment Laboratory.
 - 6. Chemical and Material Laboratory.
- 1.27 The representatives of PIL had mentioned at the public hearing held on September 30, 1974 and October 1, 1974 regarding its expansion proposal in respect of medical electronic equipment, that for its R & D facilities, PIL has incurred a capital expenditure of Rs. 143 lakhs. The current expenses on R & D in the years 1969-1973 were as under:

TABLE 8

Expenditure on R & D

Year				 				Expendi- ture (Rs. lakhs)	age of total
1969		•		 •		•		54.8	1.7
1970	•				•			52.4	1.4
1971								62.0	1.3
1972						•		71.6	1.5
1973			•			•		88.1	1.7

In all, 353 employees are employed in the R & D Department, their break-up being as follows:-

Doctorates .	•		4
Post Graduates			72
Graduate Engineers			23
Diploma Holders			185
General Staff			69
			353

- 1.28 PIL has pointed out that as an industrial organisation, its R & D activity has been necessarily market—and product—oriented. The R & D facilities were mainly established in the decade 1960 to 1970. At that time the Government laid much emphasis on import substitution through the creation of an industrial base in the country. In response to the Government's wishes, PIL has stated that it focussed its attention on replacement of imports of both components and materials by local manufacture. This required considerable adaptation of products and processes sometimes amounting almost to full scale re-development.
- 1.29 In view of this approach, PIL's R & D activities have been concentrated on engineering and can be sub-divided as follows:
 - "(a) Import substitution of (i) Materials and chemicals (ii) components and piece parts.
 - (b) Development, improvements and adaptations of manufacturing process, both mechanical and electrical; also including introduction of quality control system, cost reduction, efficiency improvement and value engineering.
 - (c) Development of new products."
 - The R & D activities cover in particular the following article group:
 - "Electronic components, electronic test and measuring instruments, electro trans-receivers, radios, record players, lighting fittings and accessories."
- 1.30 The detailed information provided by PIL regarding the achievements of R & D in different laboratories confirm that the R & D effort upto new has largely been focussed on import substitution and adaptation of product designs to suit locally available materials and components. At the public hearing in the case of the Applicant's medical electronic equipment, PIL's representatives pointed out that a few full scale innovations have been achieved by their R & D, one example being that of improved tuning indicators which up to now were being produced mainly in Japan and were not being produced by any Philips Organisation in the world. It has been claimed that, as a result of R & D, the expenditure on imported materials as a proportion of its total output has declined from 24% in 1960 to 4 per cent in 1973.
- 1.31 Quality Control.—PIL claims to have established quality control departments in each of its manufacturing units. In its own words, the tasks of the quality control departments are:—
 - "(1) An organisation of quality control including the formulation of the aim of all efforts concerned with quality.
 - (2) A programme for the product stages—market research development, production, distribution service.
 - (3) Procedure and documents for each of these stages, for example—procedure for release of production—rules for preparation of product specifications, rules for recording of test results.
 - (4) A programme of quality assurance measures for example—inspection of incoming materials and parts, inspection during the production process, final inspection of finished products.
 - (5) Test methods for all stages, based on international basic standards and standard procedures.
 - (6) Test equipment.
 - (7) Rules for interpretation of test results and fee-back."
- 1.32 It has been stated that PIL has incorporated various quality checks in the scheme of its production line. The procedure is comprehensive and involves quality checking of purchase of materials, processing of manufacture of goods and marketing. The materials purchased are sample checked as per batch purchases to avoid use of inferior material in the end product. The process control is the joint task of the Assembly Department and the Quality Control Department. The responsibilities of the former are to assess regularly the manufacturing quality, to collect information

on the extent and nature of faults, to analyse the faults and to improve the quality. The Quality Control Department checks the assemblies and sub-assemblies and it is particularly responsible for tests like "customers test and mechanical check" and "technical check according to test instruments." The Department prepares weekly reports to know the quality trend of the outgoing products to enable corrective measures to be taken.

- 1.33 PIL has equipment worth Rs. 40.0 lakhs for quality control and has a special cadre of 94 persons for this work.
- 1.34 Ancillary Industries.—PIL has stated that it has been its industrial philosophy to encourage the development and growth of ancillary industries. As many parts and components as can be manufactured by ancillary units to the quality requirements laid down by PIL are said to be farmed out. Only when either because of quality considerations or because of technical considerations a part or sub-assembly has to be produced in PIL's own factory is such manufacture undertaken. Considerable experience has been built up out of closely working with ancillary units and assisting them in producing components of the required quality. PIL has claimed that in 1973 it purchased materials worth Rs. 7.5 crores from about 2,000 ancillary units. This comes to about 1/7th of the total turnover of PIL during that period. The value of items purchased from ancillary industries constitutes about 1/3rd of the total value of materials purchased by PIL.
- 1.35 Exports.—In recent years, PIL has undertaken exports of some of the items produced by it. The applicant is a registered export house. The total value of its exports has been as follows during the last five years:—

TABLE 9

Exports by PIL

Year					That			Rupees in lakhs
1969		•			THINE			74
1970	•	•	•					106
1971			•	•				54
1972				٠.	ग्रस्थोत ज्याने			105
1973		•	•,		deadd ddd	•	 	112
1974	•	•	•					340

1.36 It has been claimed by PIL that these exports have been on a voluntary basis except in the case of welding electrodes in which case a condition had been put by Government that 10% of the annual output should be exported. As a matter of fact, PIL has been enable to fulfil this particular obligation of account of what they call unfavourable international market conditions. They have, however, exported other items like fluorescent lamps, radio sets, starters, loudspeakers and potentiometers. In terms of value the biggest items are radio sets and kits, and valves and transistors. Except for starter components 100% of whose output is exported, the proportion of total output of any of the items exported is not very large except in the case of components like resistors (39%) and starters (20%). Of the total exports effected by PIL in 1973, exports made to the parent company in Holland are about 21%, exports made to Singapore (probably an associate company) amount to 17% and exports made under rupee trade agreements amont to about 24% Philips (Holland) has apparently not made India a major base for any electrical or electronic items for satisfying the demands in regional or world markets.

1.37 One important feature of the exports made by PIL is that in most of the items exports are being made at much loss. Except in one or two items the loss as compared to the ex-factory cost appears to be significant and it is found to be even larger if the total cost of production of the items is considered. Only in a few items—constituting a small value of exports—is the loss as compared to cost lower than 20%; in some other small and not so smsall items the loss exceeds 50%; and even in items that constitute a large proportion of the total PIL exports, the loss varies from 30% to 50% of the production cost. Taking all the exported items together,* it is found that the F.O.B. realisation

^{*}Though the Commission has examined itemwise costs and export realisations, it is not thought necessary to furnish itemwise details in this Report.

is significantly lower than the cost of production, the loss on exports increasing with increase in exports (see Table 10).

TABLE 10

Statement Showing Cost of Purchasing one U.S. Dollar from the Exports made During 1971 to 1973 by PIL

(Rs./lakhs)

		************			·			1971	1972	1973
FOB realisation from Exports		•		•	•			54.00	105.00	112.00
Cost of production of Exported I		î.:								
Raw material consumed								54.00	100.00	140.00
Conversion Costs .		•						10.00	21.00	35.00
Packing Costs	•	•		~ 5	TEE S			3.00	11.00	5.00
		Тота	ı .ê			1		67.00	132.00	180.00
*Less Duty drawback	•	•			â.,			7.00	5.00	5.00
				W				60.00	127.00	175.00
Profit (+) Loss ()	•	•		H	1 677	À	•	() 6.00	()22.00	()63.00
**Cost of purchasing foreign	exc	hange	(Or	ne US	Dollai	:)	•	8.33	9.07	11.72
				सवा	पेन जय	ले				
${\it Total~Costs~of~Exported~Items:}$										
Administrative Costs				•	•			1.00	2.00	3.00
Selling & Distribution Costs	Í	•		•			•	12.00	16.00	23.00
		Тотл	L.		•	•	•	73.00	145.00	201.00
Profit (+) Loss (—)			•		•	•		()19.00	()40.00	()89.00
**Cost of purchasing foreign	exc	hange	(Oı	ne US	Dollai	·) .	•	10.14	10.35	13.46

^{*}On the exports made, the Company has received in addition to cash subsidy import licences worth Rs. 17 lakhs, Rs. 32 lakhs and Rs. 33 lakhs respectively during these years.

^{**}Calculated by the Commission's Office.

^{1.38} It would thus be seen from the above Table that the shadow value of foreign exchange at which PIL exported has been Rs. 8.33, 9.07 and Rs. 11.72 per US Dollar in 1971, 1972 and 1973 if only direct costs are taken into account and Rs. 10.14, Rs. 10.35 and Rs. 13.46, if indirect costs are also included. The specially noticeable feature of this calculation is that as PIL has increased its exports, the benefit from exports has become more questionable.

TABLE 11

Foreign Exchange Realisations from Exports by PIL

(Rs. in lakhs)

				1971	1972	1973
1.	FOB value of Exports		•	54	105	112
2.	Import content in this (CIF)			1.6	4.2	4.1
3.	Technical Assistance Fee (Exported Items)		•	0.5	1.2	0.4
1.	Commission		•	3.9	6.7	8.6
5.	Total foreign exchange outgo (2+3+4).	•		6.0	12.1	13.1
6.	Net Realisations in foreign exchange from (1—5)		rts	48	93	99

Source.—Applicant Company.

1.39 It will be seen from the above Table that the net realisation in foreign exchange from exports is further reduced as a result of the import content and other outgoings in foreign exchange. When we take note of the fact that remittances on foreign equity are quite large, it will be seen that the net effect of PIL's operations including exports is unfavourable in terms of accretion of foreign exchange to the country. In this context, it is also appropriate to note that as against such exports of somewhat doubtful value, PIL under the existing rules becomes entitled to import licences for raw material imports of a significant value.

1.40 Overall Effect of PIL's operation in India: It has already been indicated above that PIL was incorporated in India in 1930 as a private limited company. It was converted into a public company in 1957. Information about the financial results of PIL's operations in India, to the extent it was made available by PIL, will be indicated by Tables 12 and 13.

TABLE 12

Acquisition of Shares in PIL by Philips (Holland)

(Rs. lakhs) Upto 1956 After 1956 Total 10.00 159.40 169.40 1. Share capital acquired for cash 80.10 80.10 Share Premium paid 10.00 239.50 249.50 Bonus Shares received so far (including Bonus Shares issued 645.40645.40in 1974) Total Share capital held by Philips Holland (Total 804.80 814.80

Source.—Applicant Company.

TABLE 13

Returns received by Philips (Holland) from PIL

(Rs. lakhs)

Period			Gross			Net (after	payment	of tax)
		Dividends	Tech. Asstt. Fees	Royalties	Total	Dividend	Tech. Asstt. Fees	Royalties
1		2	3	4	5	6	7	. 8
1939 to 1952		56.75	3.65	1.55	61.95	43.28	N.A.	N.A.
1953 to 1956	•	12.00	13.04	4.95	29.90	N.A.	N.A.	N.A.
TOTAL	•	68.75	16.69	6.50	91.94			
1957 to 1959	•.	40.63	Included in royalty	29.74	70.37	N.A.	N.A.	N.A.
1960 to 1972		585.08	14.57	238.33	837.98	447.78	8.19	217.48
1973		94.24		_ E-3)	94.24	72.98	N.A.	N.A.
Total		719.95	14.57	268.07	1002.59			
GRAND TOTAL	•	788.70	31.26	274.57	1094.53			
Remittances aw ing RBI clearai				1/1/1/4	69.44			

Source.—The Applicant Company.

1.41 These Tables show that up to 1956 Philips (Holland) contributed Rs. 10 lakhs by way of share capital to the PIL in the period between 1938 to 1956* it obtained gross amount of over Rs. 68 lakhs by way of dividends, over Rs. 16 lakhs by way of technical fees and Rs. 6.50 lakhs by way of royalties. In the period between 1957 to 1974, Philips (Holland) provided Rs. 159 lakhs by way of share capital and Rs. 80 lakhs by way of share premium in addition to the original Rs. 10 lakhs. On this share capital of Rs. 169 lakhs it received bonus shares of the face value of Rs. 238 lakhs. In the period between 1957 and 1974 it received by way of dividends a gross amount of Rs. 720 lakhs, technical assistance fees of Rs. 15 lakhs and royalties Rs. 268 lakhs. Complete information is not available regarding the net amounts received by Philips (Holland) on its investment in PIL. But it is obvious that its capital contribution has been repaid three times over even if we take into account only dividends remitted abroad. It may also be noted that PIL having been a profitable operation, large reserves have been built up.

1.42 The Company's reserves as at the end of 31st December, 1973 stand at Rs. 1449 lakhs. These have been accumulated in addition to fairly high dividends declared on equity capital as can be seen from the Table below.

TABLE 14

Dividends declared by PIL during the last ten years

	1964 to	1966	•	•		•	•		•	18%
	1967	•		•						19%
	1968		•	•	•	•				20%
	1969				•	•			•	23%
	1970	•	•		•					20%
*	1971 to	1973			•		•		•	24%

^{*}Information for the period upto 1937 has not been supplied by PIL.

1.43 The high rate of profitability enjoyed by Company could be seen from the data given below for the last five years:—

TABLE 15

Profitability of PIL during the Last Five Years

									(Rs	. in lakhs)
						1969	1970	1971	1972	1973
Sales*						2798.11	3485.71	4275.89	4480.79	4645.20
Cost of Sales		•			•	2208.66	2755.37	3041.11	3348.40	3620.24
Gross Profit	•			•	•	589.45	730.34	1234.78	1132.39	1024.96
Gross Profit as	perce	ntage	of:							
Sales .			•	•		21.1	21.0	28.9	25.3	22.1
Cost of Sales	•				(26.7	26.5	40.6	33.8	28.3
Average Capit	al En	ıploye	d.				39.8	65.0	60.0	46.0

^{*}Excluding Excise Duties.

- 1.44 PIL and Lamps.—Philips India Limited (PIL) is the single largest seller of GLS and FT lamps in the country. It is the third largest GLS lamp manufacturing unit and the largest producer of FT lamps. By virtue of the fact that obtains for sale 35.35% and 17.65% respectively of the annual production of both types of lamps from Electric Lamp Manufactures India (Private) Limited (ELMI) and Hind Lamps Ltd., PIL enjoys a leading position in the Indian lamp market. Although PIL as such has been relatively speaking, a latecomer in this line of production, it has registered a fast rate of growth. Moreover, according to the Applicant Company, its lamps factory at Kalwa "is the most modern and integrated factory in the East and the Far East, barring Japan."
- 1.45 PIL, which was till then selling GLS lamps imported from its parent company, established a small assembling factory in Bhawimipore, Calcutta, in 1934, with an annual production of less than two million GLS lamps. A few years later, in 1938, a company was formed in the name of Electric Lamp Manufacturers (India) Private Limited, (ELMI) by five foreign copmpanies. PIL's parent Company, Philips (Holland), through its subsidiary in the UK, holds 35.35% of ELMI's shareholding. ELMI, as will be explained later, undertook the production of GLS lamps and components. Its technical management is vested in Philips (Holland); policy matters are handled by a Board of Directors which consists of a representative each of all the shareholders. The Chairman of PIL represents Philips (Holland) and works also as the Chairman of ELMI's Board of Directors.
- 1.46 Another unit for manufacturing GLS lamps, Hind Lamps Limited, was formed in 1950. It is located in Shikohabad, Uttar Pradesh. In 1952-53, ELMI came to be associated with this company as a shareholder (see Chapter IV for further details). This Company was also until very recently under the technical management of Philips (Holland). In fact, the Managing Director of ELMI, appointed by Philips (Holland), was also the Managing Director of Hind Lamps.

- 1.47 As will be explained later, the partners of ELMI are entitled to obtain a proportionate share in the production of ELMI and Hind. The share of Philips (Holland) was assigned to PIL for sale. Until 1960, PIL did not produce lamps on its own; the assembly plant established near Calcutta in 1934 did not function after the establishment of ELMI's lamp factory.
- 1.48 In 1960, Oslar Electric Lamps Factory, Bombay went into liquidation and the factory was offered for auction. As the highest bidder, PIL purchased this factory for Rs. 51 lakhs. PIL has stated that the factory was then equipped with two units of lamp making machinery. This machinery had not been in use for some time and had become completely rustly and unfit for use, even though the sanctioned capacity of the factory was 5 million GLS lamps. In order to commence production, PIL was permitted to import and install one lamp making unit. With the help of technical experts from the parent company, the utility of the old lamp making machinery was examined and, by importing some important essential spare parts, the old machinery was temporarily renovated. According to PIL this renovated machinery was then capable to producing about 1.8 million GLS lamps per year. The production of GLS lamps was commenced after the renovation and installation of new machinery in 1962. In the same year, in the months of August and October, the production of starters and glow switches respectively was also started. The production of D.I.S. starters was taken up in June, 1963, and that of coil starters and wire drawing in 1964. The factory was shifted to new premises, constructed by PIL at Kalwa near Bombay, in 1966. In the same year, the Applicant Company commenced the production of FT lamps. Initially PIL applied for industrial licence for the manufacture of FT lamps along with Fluorescent Powder, Glass Shells and Glass Tubings in May 1963, when licensing for the manufacture of FT lamps was on 'banned' list upto December, 1963. At first, permission for the manufacture of FT lamps was not given to PIL. PIL represented against this, suggesting that manufacture of all the four items should be treated as a composite proposal. It was stated that manufacture of other components, which were imported at that time, would involve considerable investment the return on which was not likely to be very attractive. As a compensation for the manufacture of these components PIL asked for permission to manufacture FT lamps. The Government authorities reacted favourably to this request and decided to consider PIL's application for the manufacture of FT lamps along with applications which were rejected earlier in view of the ban. However the Ministry recommended to the Licensing Committee that as most of such applicants, except one party, have not made arrangements for foreign collaboration or for import of machinery they might not be considered favourably. It was also indicated that no such difficulty would be felt by Philips India Ltd., in view of its association with Philips (Holland). The Licensing Committee agreed with this view and recommended approval of the application of PIL and one more party for the manufacture of FT lamps. The Committee recommended rejection of all the other applications on the ground that "none of them had given satisfactory proposals in respect of foreign collaboration." In 1974, PIL started producing halogen lamps for which it has been granted an industrial licence. सत्यमव जयत
- 1.49 PIL underwent much vertical growth after setting up its Kalwa complex. It took up the production of raw materials and components which were hitherto either being purchased from other units in the country or imported. These were:—

Glass Shells — December, 1965
Glass Tubing — June, 1966
Filaments and Molyhdenum Wire — April/August 196

Filaments and Molybdenum Wire — April/August, 1964
Fluorescent Powder — November, 1966
Lead-in-wire — June, 1973

- 1.50 It may be indicated at this stage that PIL arranged to meet the foreign exchange cost of importing plant and equipment for its various expansion and diversification projects by negotiating a foreign exchange loan of Rs. 50 lakhs from its parent company and of another Rs. 50 lakhs from another Dutch Company. Government's permission for these loans was granted in 1962 with the condition that loan from the parent company would be adjusted against issue of shares to it in due course. The sanction also stipulated that PIL will "endeavour to export 10% to 20% of the annual output of......Indian Company" (See Appendix VII).
- 1.51 When PIL purchased the Osler Factory in 1960 it had a licensed capacity of 5 million GLS lamps. In 1965, on an application for expansion of capacity, it was granted an additional capacity of 3 million GLS lamps, raising its licensed capacity to 8 million GLS lamps. Since then, its licensed capacity has remained unchanged. In the case of FT lamps, it obtained an industrial licence in 1966 for a capacity of 1.5 million FT lamps, which has so far remained unchanged.

- 1.52 In 1969, the Government invited applications for the grant of additional capacity in the lamp industry for meeting the requirements of the Fourth Plan period. PIL applied for the grant of an additional capacity of 15 million GLS and 1.5 million FT lamps with the provision that it would export lamps valued at Rs. 50.0 lakhs per annum for a period of 5 years. The application also envisaged the manufacture of high wattage GLS lamps including Infra red and other reflector lamps and Mercury vapour lamps and also special lamps—such as Pilot (pigmy) lamps, Candle lamps, Lustre lamps, Train lighting lamps, Night lamps, and Tabular lamps—Circular Fluorescent lamps and Halogen lamps. The Government granted an industrial licence in 1973 for burners (for mercury vapour lamps) as well as for Mercury vapour lamps, high wattage (including infra red) lamps and Halogen lamps. In regard to GLS and FT lamps, the Company was advised by the Government to file a separate application. Further development in this regard are discussed in the next chapter.
- 1.53 Licensed Capacity and Production.—At present PIL has a licensed capacity of 8 million GLS lamps and 1.5 million FT lamps. The licensed capacity granted to PIL is for the manufacture of GLS lamps from 15 watts to 200 watts, and FT lamps from 20 watts to 80 watts. The Company's actual production both of GLS and FT lamps is far in excess of the licensed capacity (See Table 16). The applicant Company was asked to explain the factors which have enabled it to produce well beyound its licensed capacity. In reply (dated February, 1, 1975), PIL has stated:
 - "We have, at present, 3 chains of GLS lamp making machinery installed in our factory. The industrial licence does not mention the number of shifts. Two of these chains are currently being run on two shifts, while the third chain is run on a single shift basis, to meet the increased demand in the market. Normally, lamp making machinery, which is highly automated chain, requires regular maintenance and periodic overhaul. For this purpose lamp making chains are shut down in sequence and in rotation. It is from this practice that capacities are assessed on the basis of 1½ shift capacity. Further-more, through proper maintenance and overhaul schedules, the gross output of the chain is maximised, minimising unplanned breakdowns and downtime. Thus in our case with 3 units, while any two units work on double shift, the third one operates on single shift, leaving the other shift of that particular unit for maintenance. This rotates between different chains.

"GLS lamps are produced on automatic chains, running at gross speeds varying 1800 to 2000 lamps per hour. These chains are adaptable to make different wattages of lamps and either gas filled or vacuum lamps. Changing over from one type of lamp to another results in loss of production. Furthermore, the nett output of these chains is also influenced by

TABLE 16

PIL's Licensed Capacity and Production of GLS and FT Lamps

(Quantity in million nos.)

							GLS	Lamps	FT La	mps
Year							Licensed Capacity	Production	Licensed Capacity	Produ- ction
1		·					2	3	4	5
1960	•	•	•				5.00	Nil	• •	Nil
1961							5.00	Nil	• •	Nil
1962		•		•		•	5.00	3.230		Nil
1963				•	•		5.00	6.030	• •	Nil
1964	•				•	•	5.00	5.912	• •	Nil
1965		•			•		8.00	6.034	• •	Nil
1966		. •	•				8.00	9.376	1.5	0.311
1967		•					8.00	14.748	1.5	1.797
1968	•			•			8.00	15.688	1.5	2.913

TABLE 16-Contd.

1							2	3	4	5
1969	•						8.00	18.485	1.5	3.640
1970	•	•			٠.		8.00	19.599	1.5	3.839
1971	•					•	8.00	20.093	1.5	3.823
1972						•	8.00	19.852	1.5	3.623
1973			•	•	•	•	8.00	20.814	1.5	3.299
1974						• -	8.00	23.231	1.5	4.264

Source. -- Applicant Company.

such factors as wastage of partially assembled lamps, either as a stem or a mounted stem, sealed but uncapped lamp and finally as a good or bad quality lamp. The nett output of these chains is, therefore, influenced by a variety of these factors. Efficiency in production of GLS lamps is in optimising the various variables and minimising process wastage and this necessarily results in higher output.

- "The capacity of these chains are generally calculated on the basis of:
 - —the number of hours of operation annually,
 - -an assumed number of changeover between different types,
 - -the process wastage, and
 - -the end quality of the lamp.
- "As an industry average, the capacity of these chains have been assessed at 3 min. pcs. per shift annum.
- "In our case, by a combination of our many efforts. (through)
 - -optimising of production hours,
 - -minimising the loss due to changeover to different types of lamps,
 - -reducing the process wastage to a very low level, and
 - -maintaining a high quality.
- "We have presently been able to achieve an output of 4 million lamps per annum on a single shift basis. With our operating two of these chains on a double shift basis $(2 \times 2 \times 4)$, and one chain on a single shift, we have been able to obtain a total output of approximately 20 million lamps per annum. Furthermore, the improvements that have been made and are being made, in these chains (which is a continuous process) by our collaborators, and which have been made available to us, free of charge, we have been able to improve our quality and reduce wastage, which includes imported raw materials, continually resulting in improvements in the capacity of these chains. It is possible that with further developments that are presently taking place on these machines, further increases in capacity upto 1 to 1.5 mln. lamps is foresecable.
- "It must be stated here that, for this higher production we have not installed any additional machinery or equipment, nor obtained any additional allotment of imported raw materials.
- "It will thus be seen that our excess production arises from our efforts in:
 - -productivity,
 - -efficiency through lower rejects and wastage,
 - -optimisation in the capacity, and
 - -fuller capacity utilisation.
- "All the remarks made in respect of GLS lamps apply equally well in this case (FT lamps). The fluorescent lamp chains are normally rated at a speed of 600-750 lamps per hour and on a single shift basis assessed to have a capacity of 1.5 mln. per year assuming changing over to different sizes and wattages as required by customers. By minimising these changeovers and operating the chains at higher speeds with lower process wastage, an output of upto 2 million lamps per shift is realisable in these chains. Our industrial licence does not indicate the number of shifts."

- 1.54 PIL is licensed to produce GLS lamps within the range of 15 watts to 200 watts. However, it does not produce GLS lamps below 25 watts and above 100 watts. It produces, in terms of wattage only four types of lamps. In fact, 68% of its production is covered by only two types of lamps—40 watts and 60 watts—which are, relatively speaking, more in demand than other lamps. The share of these has been continuously increasing since 1969. In that year these two types accounted for nearly half of the production, while in 1973 they accounted for above 68%. In FT lamps it is licensed to produce lamps within the range of 20 watts to 80 watts. However, virtually, the entire production of FT lamps is covered by only one type (40 watts). This type is in maximum demand. The relevant data are given in Table 17.
- 1.55 PIL is presumably able to have such a product-mix as it is able to meet the market demand for lamps of other wattages from the share of lamps it obtains from ELMI and Hind Lamps. Thus, without any adverse impact on its product mix for marketing, PIL is able to concentrate on the production of a few types in its own factory and thus enhance the utilisation of its established capacity.
- 1.56 In the quotation which we have given from PIL's replies, it has been claimed that the actual production of PIL is much in excess of the licensed capacity both in respect of GLS lamps and FT lamps because of its efforts in the direction of maintaining higher efficiency through better capacity utilisation, higher productivity, and also greater efficiency through reduced rejection and wastage rates. That the PIL is able to reduce wastage of machine time through concentration of production on a few types is apparent from what has been discussed above. Moreover, it appears that the capacity was expressed originally without clearly indicating the number of shifts assumed for the purpose and it has now been explained by the DGTD that these capacities were originally expressed on one shift basis. The fact that PIL is able to operate two of its chains on two shifts and one chain on one shift basis has obviously contributed to its production being much higher than the licensed capacity. PIL's further claim, as mentioned in the above quotation, that "for this higher production we have not installed any additional machine or equipment nor obtained any additional allotment of imported raw materials" does not however appear to be accurate. From the material made available by PIL to the Commission just before the public hearing, it appears that of the two original chains obtained by PIL from the Osler Company, one was replaced in 1962 and the other as renovated by replacement of parts partly in 1962, 1963, 1964 An additional chain was installed as a 1966 and 1971, thus making that virtually a new chain. part of the expansion approved in 1965. Thus all the three chains in operation in PIL's Kalwa factory are modern units. It is of course possible that these have been well maintained through special attention to preventive maintenance. Regarding the imported components, it appears that, while PIL in recent years is allotted import licences for permitted components only on the basis of its licensed capacity, it is able to import the additional quantities of required components and raw material for its excess production by utilising its import entitlements arising out of various exports and also by purchasing such entitlements in the open market.
- 1.57 It may also be noted that PIL is in a position to utilise the long experience and expertise of its parent company. This obviously is an important factor contributing to its being able to make continuous improvements in the utilisation of lamp making machinery, especially as this machinery is also imported from its parent company. The result is that the machinery whose authorised licensed capacity is only 8 million GLS lamps and 1.5 million FT lamps is able to produce an output of above 23 million GLS lamps and 4 million FT lamps. PIL claimed that it can produce about 4 to 4.5 million GLS lamps per chain per shift and 2 million FT lamps per shift from the existing machines. That is how it is able to produce the output which is much in excess of the licensed capacity. If PIL operates all the existing three lamp making chains on two shift basis, it will be able to produce about 27 million GLS lamps per annum i.e., about 4 million lamps more than its current level of production. PIL has also stated that improvements in the utilisation of machinery are a continuing process and thus some addition to the existing utilisation is not unlikely*. At the public hearing of the case,

^{*} In this connection it may be worth noting that permission was granted to PIL to import machines for renovating the old Orler chain in October, 1971, when the question of production by PIL much above its licensed capacity was already under the examination of the concerned Government Departments; the application for expansion of capacity was also pending.

[†] In this connection, the following extract from an answer given by PIL to a question put by the Commission is interesting. "....The improvements that have been made and are being made, in these chains (which is a continuous process) we have been able to improve our quality and reduce wastage, (imported raw materials) (SIC), continuously resulting in improvements in the capacity of these chains. It is possible that with further developments that are presently taking place on these machines further increases is (sic) foreseeable....for this higher production, we have not installed any additional machinery or equipment, or obtained any additional allotment of imparted raw materials". (emphasis added).

Actual Production of PIL during 1969-1973 TABLE 17

									(Quantity in '000 pcs) (Value in Rs. '000)	'000 pcs) As. '000)
Type of Lamps	1	1969	1970		1971		1972	72	1973	
rdiment to odl	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
G.L.S.	-									
25W	7871 (42.6)	4717	6393 (32.6)	3867	4289	2525	.3504	2241	3755	2458
40W	4412 (23.9)	2782	, 5216 (26.6)	3296	5378	3303	5237	3380	6046 6046	4143
	4741 (25.6)	0908	5130 (26.2)	3321	6410 (31 9)	4007	7190	4766	8148	5685
100W	. 1461 (7.9)	1004	(14.0)	1941	(20.1) 4052 (20.1)	2628	(30.1) 3980 (20.0)	2807	(39.1) 2865 (13.8)	2148
	18485 (100.0)	11563	19599	12425	20129 (100.0)	12463	19911 (100.0)	13194	20314 (100.0)	14434
F. T.			H	A.	A STATE OF THE PARTY OF THE PAR			-		
20W	938 (34.7)	1863	:	:	443	917	•	:	:	:
40W	2702 (65 3)	7140	3581	9619	3384	9371	3625	11251	3193	10518
65W/80W			258 (6.8)	(93.2) 693 (6.8)	(***)	(91.6) 	(100.0)	(100.0)	(96.7) 106 (3.3)	(96.3) 399 (3.7
	3640 (100.0)	(100.0)	3839 (100.0)	10312 (100.0)	3827 (100.0)	10288 (100.0)	3635 (100.00)	11251	3299 (100.0)	10917 (100.0)

Source: 1. D.G.T.D.

2. Applicant Company.

(Figures in brackets give percentages to total.)

PIL's representatives however stated that the existing machinery has almost reached the end of potential improvements now, and that any significant improvement in utilisation may no longer be possible.

- 1.58 It needs to be clearly understood in this context that the whole concept of industrial capacity continues to be nebulous. The DGTD representatives indicated to the Commission that the original capacity for lamp making machinery was prescribed without mentioning the shifts but the assumption was that it will be utilised on a single shift basis. Since 1969-70, the Government is assuming a 1½ shifts basis for this industry, it being thought that the remaining period of the day is required for the maintenance of the machinery. Taking into account the normal product mix in a lamp making factory which involves some waste of the machine time for each change in type under production, and the normal wastage and breakage in production, the optimum output of the lamp making machine has been assumed at 3 million GLS lamps per shift (i.e. 4½ mln. for one chain on a 1½ shift basis) and 1.5 million FT lamps per machine (i.e. 2.25 million on a 1½ shift basis). Obviously if a unit can operate two full shifts continuously during a year and if it is able to maintain a low rate of breakage and wastage, it will be in a position to produce more. The availability of various components and also their quality would have much to do with the actual output. An almost wholly integrated unit which produces most of its own components, and if its components are of a high quality, will therefore be in a far better position than units which have to depend upon others for such supplies. All these factors explain the fact that PIL's actual output is very much higher than its licensed capacity.
- 1.59 The Applicant Company has claimed that it is the only manufacturer of the following types of GLS and FT lamps in the country:

GLS Lamps:

- (i) fantasie lamps
- (ii) reflector lamps
- (iii) blended lamps

FT Lamps:

- (i) Lamps with triple coil and enode ring construction
- (ii) Lamps with silicon coating for rapid start application 'TL' 65/80W.
- (iii) reflector type fluorescent lamps 'TL'-F.
- 1.60 Raw Materials and Components.—PIL claims that it was a pioneer in the production of components for GLS and FT lamps and has thus helped import substitution. It is at present producing the following raw materials/components required for the manufacture of GLS and FT lamps.
 - 1. Filaments
 - 2. Glass Shells
 - 3. Glass tubing
 - 4. Fluorescent powder
 - Load-in-wire
 - 6. Molybdenum wire.
- 1.61 The licensed and installed capacity and actual production of these raw materials and components during the past five years is shown in Table-18. This Table also shows the share of captive consumption of these items by the Company. Of these components, the production of glass shells and filaments was 144% and 125% of the licensed-capacity, respectively. In 1973, PIL has consumed for its own use about 75% of its production of glass shells, 40% of filaments, 35% of flurorescent powder, 18% of Molybdenum wire and 7% of lead glass tubings.

TABLE 18

PIL's Licensed Capacity, Installed Capacity production and Captive Consumption of Raw Materials & Components

			19	1969	1970	02	1971	7.1	1972	2	, 31	1973
Item	License	Licensed Installed capacity capacity	Produc- tion	Captive consumption	Produc- tion	Produc- Captive I tion tion	Produc- tion	Produc- Captive tion consumption		Produc- Captive tion tion	Produc- tion	Produc- Captive tion consump-
Filaments (000)	60000	00009	83062	28330 (34.1)	86769	29000 (33.4)	86947	30500	80599	29730	75098	29990
Molywire (kgs)	2400	2400	610	126 (20.7)	746	134 (18.0)	1062	137 (12.9)	1090	135 (24.4)	805	142
21 M.M. Shells (000)	20000	20000	23977	19400 (80.0)	25567	20580 (72.0)	30840	21100 (68.4)	33888	20840	28779	21850
Lead Glass Tubing (tonne)	3600	3600	1492	210 (14.1)	2946	230	3292	233 (7.1)	3084	288 (7.4)	3223	232 (7.2)
Leading in wire* (000)	•	:	:	:	:	:	:	:	•	:	28055	27980
Fluorescent Powder (tonnes)	80	80	65	21 (32.3)	70	23 (32.8)	28	22 (37.9)	63	21 (33.3)	52	19 (34.5)

Note: -*Licensed for captive consumption only.

Figures within brackets denotes percentage share of captive consumption in the Company's Production.

Seurce: Applicant Company.

- 1.62 PIL claims that "the extent of import substitution is such that the import content of GLS lamps was 34 paise per lamp before we started our component activity and the Government used to give licences at this rate and that for the TL lamps was Rs. 1.50 per lamp. In 1973, the content was approximately Rs. 0.86 for 100 normal GLS lamps and only Rs. 7.74 for 100 TL lamps. Even this import content represents only basic chemicals and gases, etc. that are not produced in India." It has been further stated that PIL has "to the best of our knowledge the lowest import content in the lamp industry." And, "Our import content of GLS lamps is less than 1 paise per lamp while for fluorescent lamp it is 8 paise per lamp. This should be compared to the industry's average of 12 to 15 paise per lamp for GLS lamps and 50 paise per fluorescent lamp."
 - 1.63 Quality and Standards.—In this regard PIL has stated :-
 - "We have consistently followed international quality standards in our products right from the inception of our factory. It has been our philosophy that we should not manufacture a product which deviates from international standards even if the market is being a protected one and closed from imports. Our products have consistantly scored high/in the international quality competition and as a matter of fact in the quality competition held between various Philips factories in the world, Kalwa factory has received the first prize for Fluorescent lamps in the year 1969 and in 1972 for GLS lamps."
- 1.64 PIL follows PHILIPS AND IEC (Reg. No. 64 of 1961 for GLS lamps and No. 81 of 1961 for Fluorescent lamps) standards in the manufacture of these two types of lamps.*
- 1.65 The Applicant Company has adopted the following quality control methods in the manufacture of lamps:
 - "Quality Control for incoming raw materials.—By adopting MIL Standard 105 D. (Major defects AQL 1.0% and minor defects AQL 2.5%). Only material with acceptable quality level are sent to production. Apart from inspection, Quality Control Department also helps the supplies to improve their quality of material supplied to our factory by giving them technical guidance".
 - "Quality Control during process.—Samples are drawn at regular intervals from various stages from components to end products and tested for Quality Perameters. (Some of the tests carried out for GLS and TL lamps are indicated in the Annexure). The results of the tests are fed back to the Production Departments regularly".
 - "Quality Control of Outgoing materials.—Samples are taken at regular intervals and checked for electrical, machanical and light technical properties of lamps.....including drop tests of packed material to check the resistance to transport."
 - 1.66 Research and Development.—The Applicant has stated:—
 - "We do not have a separate Research and Development Division for GLS lamps and Fluorescent Lamps. Our Research and Development activities are mainly identified to the indigenousisation of lamp components, including chemicals, raw materials and development of spare parts for our machinery. This activity has spread over the factory both at Kalwa and in our Control Chemical Laboratory in Loni."
- 1.67 However, the Company has furnished data related to expenditure on R & D during the past five years (Table-19). These figures merely represent the pro rata allotment of total expenditure on R & D to the lamps Division.

^{*}The Applicant Company was asked whether the quality of the lamps produced by ELMI and Hind units which are or were under a common technical management is as good as that of PIL products. In reply the company has stated: "It is not necessarily so that there is no difference in the quality of what we (PIL) and other two units produce. Our standards are substantially higher than those produced by the others but which are within the prescribed limits."

TABLE 19

PIL's Expenditure on R & D (Lamps division)

Year		 Expenditure (Rs. in lakhs)	
1969		3.8	
1970		5.2	
1971		5.8	
1972		6.2	
1973	•	7.4	

Source.—Applicant Company.

1.68 Technical Assistance from Philips, Holland.—PIL is having technical assistance agreements with Philips (Holland) in respect of burners for gaseous discharge lamps, fluorescent lamps, Fluorescent powder, and glass tubings. The broad terms and the dates of termination of the present agreements are as under:—

Items covered by the agreement	Broad terms	Expiry dates of existing agreements
1	2	3
1. Burners for gaseous lamps.	3½ per cent for technical assistance plus one per cent patent royalty on total invoice amount minus normal discounts, commission and freight.	whether terminated or re-
2. Fluorescent Lamps*	. 2 per cent for technical assistance on net turnover i.e. invoice value minus sales tax and c.i.f. value of imported components.	31-12-1976.
3. Fluorescent Powder*	. 3½ per cent for technical assistance on net turnover i.e. invoice value minus sales tax and c.i.f. value of imported components.	31-12-1976.
4. Glass Tubing* .	. 2 per cent for technical assistance on net turnover i.e. invoice value, minus sales tax and c.i.f. value of imported components.	31-12-1976.

^{*£5,000} tax free to be paid in lumpsum for fluorescent lamps, Fluorescent powder and glass tubing to M/s. N. V. Philips' Gloeilampenfabrieken, Eindhoven, Holland. The same amount has been prescribed for each of these three items.

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^{1.69} Although PIL does not have any formal technical assistance agreement in respect of GLS lamps, it has stated that it continues to receive various types of assistance from the parent company. It has stated that by taking advantage of the experience of Philips (Holland) in this area, PIL has been able to establish efficient production in the shortest possible time. This association has also enabled PIL to achieve a high degree of integration, from raw materials and components to finished lamps, and also to effectively co-relate the process to the product design. PIL is a member of the Philips Federation of Industries and as a result of this has the opportunity to exchange performance data with other member factories all over the world. As a consequence of this, it has been able to establish high standards of production and bring down process wastage to a low level. The average process waste in PIL is said to be one of the lowest in the lamp industry in India, the result being lower raw material imports and higher productivity.

1.70 PIL has pointed out the following examples of process improvements which have resulted from its association with Philips (Holland):—

GLS Lamps:

- (i) "Extended Exhaust-resulting in the elimination of rod glass and thus effecting savings in glass consumption, fuel oil and also resulting in quality improvements.
- (ii) "Automatic Coil Feeder—preventing contamination and thereby improving quality and reducing wastage.
- (iii) "Pinch Closing—the exhaust tube after pumping and filling is closed by means of a pinch, contrary to the earlier practice. This results in increased filling pressure inside the lamps, leading to improved lumen maintenance over the life time of the lamps.
- (iv) "In order to reduce the amount of filament breakage of lamps in transit, we (PIL) developed and adopted a special recrystallisation menthod.
- (v) "The incorporation of an electronic current tester in the chain, to check each lamp for its quality.
- (vi) "Philips (PIL) has a new technique of automatic inspection at every stage of each and every assembly and sub-assembly at various stages of production, thus making the quality of the lamps of a greater consistency of quality.

Fluorescent Lamps:

- (vii) "A triple coil with anode ring construction ensures a better lumen maintenance and avoids end-blackening.
- (viii) "A new sintering technique has been adopted resulting in improvements of lumen output and lumen maintenance of Fluorescent lamps.
- (ix) "Philips (PIL) have an exclusive method of introducing Mercury in fluorescent lamps which controls the dosage effectively and prevents wastages.
- (x) "In the manufacture of fluorescent lamps, we (PIL) use Argon-Neon mixture as the filling-gas. This enables our (PIL) lamps to be used most efficiently wish all makes of Ballasts in the country, without any detrimental effect in the lamp performance.
- (xi) "We (PIL) are manufacturing reflector fluorescent lamps. This lamp with a reflector coating inside the lamp, enables better utilisation of available light from a normal fluorescent lamp by directing it in the direction where it is required most namely—the working plants. This results in efficiency improvement and energy saving. Moreover due to these characteristics in a dusty atmosphere, the settlement of dust on the upper surface of a normal fluorescent lamp, does not have any effect in a reflector lamps as compared to a normal lamp."
- 1.71 In addition to the above, PIL has claimed that it has made the undermentioned improvements in the process of production on its own:
 - Glass Factory.—"due to the energy crisis and with the rising prices of oil it was considered necessary to make fuel saving in the operation of our Glass Factory. After extensive investigations, a completely new batch mix has been evolved which has resulted in fuel savings. The glass mix has been so modified as not to adversely affect the lamp making process, not to result in increase in the process wastage in lamp making, nor adversely affect the lamp quality.
 - "Moulding dies for our bulb blowing machines have been fully developed locally and are presently being exported to Philips factories in all parts of the world."
 - Wire and Coil Factory.—"We have evolved a technique in tungsten wire finishing and coilling, which has resulted in the complete avoidance of spots in coils, thus reducing the wastage in coils and improving lamp quality."
 - Fluorescent Powder.—"An automatic crushing and grinding unit has been developed and manufactured locally which is used in the manufacture of fluorescent powder. This has resulted in an improvement in the production, efficiency of fluorescent powder."
 - "In addition to this, a number of lamp chemicals have been developed in our laboratories."

TABLE 20
Trend in Prices of GLS and FT Lamps marketed by PIL

										(Per	(Per 100 in Rs.)
Type of Lamps	1-1-66 16-3-69	17-3-69	1-5-70	25-5-70	1-5-1	7-6-71	4-6-73	1-12-73	15-4-74	2-9-74	% increase 2-9-74 over 16-3-69
GLS LAMPS:											
	. 150.00	150.00	170.00	170.00	180.00	180.00	190.00	220.00	250.00	270.00	80.0
40W CL	. 170.00	185.00	185.00	195,00	205.00	205.00	205.00	240.00	260.00	280.00	51.0
	. 185.00	185.00	195.00	195.00	205.00	205.00	220.00	255.00	275.00	290.00	55.0
	. 235.00		250.00	250.00	250.00	290.00	290.00	310.00	320.00	340.00	42.0
	. 190.00		200.00	210.00	220.00	220.00	220.00	260.00	280.00	300.00	50.0
	. 205.00	200.00	210.00	210.00	220.00	220.00	235.00	275.00	295.00	315.00	57.5
100W AR	. 265.00	265.00	275.00	275.00	275.00	300.00	300.00	330.00	340.00	360.00	35.9
FT LAMPS:				। नय						X	
TL 20W	. 940.00	1025.00	1025.00	1025,00	1025.00	1125.00	1125.00	1400.00	1500.00	1700.00	65.8
TL 40W	. 1160.00	1160.00	1160.00	1175.00	1175.00	1275.00	1275.00	1500.00	1500.00	1800.00	55.0
TL 65/80W	•	•	:	1780.00	1780.00	1900.00	1900.00	2200.00	2200.00	2500.00	40.0
	i			•							

Source :- Applicant Company.

- 1.72 Prices.—The trend in PIL's list prices of GLS and FT lamps since 1966 is given in Table-20. The prices of both GLS and FT lamps remained constant during the period January 1966 to March 1969. However, since 1969, the prices of all types of GLS and FT lamps, produced by PIL, have been considerably raised. To cite an example, the list price of 40 watt (CL) GLS lamp, which was Rs. 1.85 in 1969, had been increased to Rs. 2.80 in September, 1974, indicating an increase of about 50%. Similarly, a 60 watt (CL) GLS lamps, which in 1969, was priced at Rs. 1.85 per lamp, was priced at Rs. 2.90 in September 1974, showing a price increase of 55%. A 40 watt FT lamp was sold in wholesale at Rs. 11.60 in 1969, whereas its price in September, 1974, was Rs. 18.00. This also indicates an increase of about 55%.
- 1.73 In justification of this rise in the prices of its products. PIL has given the following reasons:—
 - "(a) increase in the prices of raw materials both imported and local;
 - (b) variation of Indian currency adversely vis-a-vis European currency;
 - (c) revision of import duties and excise duties upwards both directly and indirectly;
 - (d) Increase in the prices of energy such as electricity, fuel, oil, LPG, etc.;
 - (e) increase in freight since our prices are on F.O.R. destination;
 - (f) sharp increase in the cost of packing materials due to increase in prices of paper, card-board, etc.
 - (g) substantial increase in wages due to high cost of living index."
- 1.74 In reply to a question whether the retail prices of PIL's lamps are higher than those of other large scale manufacturers, the applicant company has stated: "We do not sell lamps at higher prices than that of the other large scale manufacturers." But a number of objectors have informed the Commission that, because of its popular brand image, PIL's lamps fetch a higher retail price.
- 1.75 It is well known that the trade prices of PIL's lamps are higher than those of its competitors. PIL used to give dealers a discount at the rate of 20% upto 1969; this has since been reduced to 17½%. In comparison, other large scale manufacturers give a discount of over 25%.

CHAPTER II

THE APPLICANT'S CASE

Introduction

2.01 As mentioned in Chapter I, PIL applied to the Government in May 1969, for expanding its existing licensed capacity in GLS and FT lamps, and new capacity in various other types of Lamps. The additional capacity applied for was 15 million GLS lamps and 1.5 million FT lamps on single shift basis. As a condition of the envisaged expansion, the Company was prepared to export lamps and lamp components valued at Rs. 50 lakhs per annum for a period of five years. This application was not recommended by the DGTD, "as according to the norms no company belonging to Philips Group was considered for expansion or issue of letters of intent for the manufacture of GLS lamps and Fluorescent Lamps." The Government informed PIL in August, 1970, that "for the expansion of (15-200W) GLS lamps and FT lamps, you may submit a fresh application for additional capacity for purposes of exports through Export Promotion." Accordingly, the Applicant Company submitted a fresh application in September/October 1970. The expansion was now sought only for an additional capacity of 9 million GLS lamps and 2.25 million FT lamps on the basis of maximum utilisation of plant and machinery. The Company also stated that it would export GLS lamps and FT lamps valued at Rs. 50 lakhs "made up of Approximately 5 million GLS lamps and 1 million FT lamps per annum for a period of 5 years." Thus, the capacity now sought to be added was such that 60% of the additional output could be exported and thus the proposal could be treated as export-oriented. This proposal of the Company was considered by the Licensing Committee at various stages. In its meeting held in October 1971, the Licensing Committee recommended the application for approval "on the condition that for the first five years, the firm should export 50% of their additional capacity and 75% of their additional capacity for (the) next five years." Since PIL was registered under Chapter III of the MRTP Act, it was specifically asked in December, 1974, to get clearance for its proposal under that Ac

Expansion at Kalwa Factory

2.02 The present application under the MRTP Act, corresponding with the application under I.D.R. Act of September/October 1970 is for the purpose of effecting substantial expansion of PIL's existing capacity in the manufacture of GLS lamps by 9 million and that in FT lamps by 2.25 million. The entire expansion is proposed to be carried out in its existing factory at Kalwa near Bombay. The advantages that the Company expects to derive by executing the proposed expansion at its existing factory has been explained as under by PIL in its letter to the then Ministry of Industrial Development and Internal Trade dated September 21, 1971:

"Our project has been envisaged as an extension to our factory at Kalwa (near Bombay) where the requisite space, building and auxiliary services are already available. Relocating the proposed project elsewhere including West Bengal would call for substantial incremental investments for land, buildings and services including import of additional plant and machinery."

In its reply (dated November 29, 1974) to the Commission's questionnaire the Company has stated that "all the existing service departments in the existing factory at Kalwa, including managerial staff, would handle the proposed expansion."

Phased Programme

- 2.03 In its expansion for an industrial licence in September/October, 1970, PIL had indicated that the project did not involve any phased manufacturing programme. The implementation of the project would take 12 to 15 months after the receipt of the capital goods licence.
- 2.04 However, in reply to a query from the Commission, the Applicant Company (vide its Reply dated November 29, 1974) has submitted: "It is expected that we (PIL) will reach the full production level 18 months after the receipt of the import licence for capital goods and going to

the second shift 18 months thereafter. We shall reach thus the full capacity to double shift utilisation at the end of 36 months after the receipt of the import licence for capital goods." In reply to another question, the Company has furnished the following five-year phased production programme:

TABLE 21

Phased Production Programme

(figures in Million Nos.)

Year						ed installed apacity	Produc	tion
				<u>. </u>	GLS lamp	s FT lamps	GLS lamps	FT lamps
lst year	•	•		•	9.0	2.25	8.0	1.2
2nd year				ě	9.0	2.25	12.0	3.0
3rd year		•		•	9.0	2.25	16.0	3.5
4th year		•			9.0	2.25	16.0	3.5
5th year	•	. •	•	, de	9.0	2.25	16.0	3.5

Source.—Applicant Company.

2.05 In its IDRA application of 1970, PIL had stated that the projected additional capacity of 9 million GLS lamps and 2.25 FT lamps was based on "maximum utilisation of plant and machinary." in its application dated 21-3-1974 to the Department of Company Affairs, seeking clearance for the proposed expansion under the MRTP Act, 1969, the same statement was repeated. When the Comapny's attention was drawn to reaching the projected level of production of 12 million GLS lamps in the second year of the implementation of the project and to 16 million GLS lamps in the third and subsequent years of the projected period, which obviously was well beyond the additional licensed capacity applied for, the Applicant Company vide its letter dated February I, 1975 stated: "The production schedule (figures given in Table 21) indicates the production on the assumption of 'maximum utilisation of plant and machinery' from the proposed expansion. In 1970, when we submitted our proposal, the industry norm of 4.5 million for each GLS chain and 2.25 million for each TL chain, was used as the basis. With our proposal for 2 GLS chains and 1 TL chain we arrived at the figures stated. In keeping with the present norms adopted on the basis of maximum utilisation of plant and machinery, we have reworked the possible levels of production....... These figures are exclusive of our present capacity/output." It is thus clear that upto March, 1974, the Company had consistently maintained that its application for additional capacity of 9 million GLS lamps and 2.25 FT lamps would be based on maximum utilisation of plant and machinery which in this industry means working on 1½ shift basis.* However, the fingres given earlier (see Table 21) and the reply to the Commission as quoted above indicates that PIL now intends to reach a production level of 16 million GLS lamps and 3.5 million FT lamps in the third year of the five-year projected period. The Applicant Company has stated that it will continue to operate at the same level upto the terminal yea

Types of Lamps

2.06 PIL in its application has stated that it would produce GLS lamps ranging from 15 W to 200 W which is the same as in its existing industrial licence through, during the last few years, it has been concentrating its production on lamps ranging only between 25 W to 100 W. Further,

^{*}See the discussion about capacity norms in Chapter IV below.

the Company, under the proposed expansion, intends to equip itself for the production of the following special types of lamps:

- (a) 'K' lamps
- (b) Superlux lamps
- (c) Colour lamps
- (d) Pilot lamps
- (e) Tabular lamps
- (f) Traffic Signal lamps
- (g) R-20 Reflector lamps
- (h) Bowl mirror lamps, etc.

It has also been pointed out: "In addition to the above, GLS lamps will have to be manufactured in Clear, Frosted, and Argenta executions with either B-22 or E-27 caps, in the voltages ranging from 90 V to 240 V, depending on the country to which exports take place and the demand in the respective country." In the case of FT lamps, the following special types will be taken up for manufacture:

- (a) "Lamps in 15 W and 30" ratings with an outside diameter 26 mm.
- (b) "Lamps with colour characters of white, warm white deluxe, white special deluxe and daylight."

The Company has also submitted: "Most of these types have so far not been manufactured in this country." While the production of these special lamps will be taken up mainly for export purposes, according to the applicant, "these types would also become available for the Indian consumer."

2.07 The Applicant Company was asked whether it would be prepared to have the envisaged additional capacity both for GLS lamps and FT lamps restricted to new types not being produced in the country up till now: In its reply dated February 1, 1975, the Company has stated that "for export purposes in the manner in which we are trying to develop India as a supply centre of GLS lamps in certain markets, it is essential to offer a complete package of lamps, comprising of different wattages, types and other executions. It is, therefore, essential that in an export project, one has to visualise not only the current trend of demand but also to foresee the possible shift in demands. Our proposal both in respect of GLS lamps and fluorescent lamps is such that we will be equipped to manufacture not only the normal types of these lamps but also the special executions of such lamps to offer to an importer a package to meet his requirements. It is, therefore, not possible to restrict ourselves to have additional capacity only for new types....... Within this capacity we are seeking to build adequate flexibility to be able to supply what the customer needs, at different points of time."

Export Oriented Project

2.08 PIL's expansion proposal is export oriented in as much as it is prepared to "export 60% of the total annual production arising out of the installation of machinery and equipment for the substantial expansion applied for." In its application for expansion, made in May, 1969, PIL had indicated that it would export lamps and lamp components valued at Rs. 50 lakhs per annum for a period of five years. This was to be related, however, to the then envisaged expansion of 15 million GLS lamps and 1.5 million FT lamps on single shift basis. In its fresh application for industrial licence in 1970, the Applicant Company stated that it would export GLS lamps and FT lamps valued at Rs. 50 lakhs per annum with the additional capacity asked for being 9 million GLS lamps and 2.25 million FT lamps on the basis of "maximum utilisation of plant and machinery." It maintained the same position in its application made in March, 1974, to the Department of Company Affairs for getting clearance under the MRTP Act. In a letter dated September 2, 1971, to the then Ministry of Industrial Development and Internal Trade, PIL explained its position regarding export commitment as follows:—

"Our proposal envisages an export volume of Rs. 50 lakhs per annum for five years based on a rough calculation of 5 million GLS lamps at Re. 0.50 per lamp f.o.b. and 1 million Fluorescent lamps at Rs. 2.50 per lamp f.o.b."

When asked to clarify its position regarding the commitment in value rather than giving an undertaking to export 60% of the annual production, the Applicant Company stated in the same letter, "While we shall seriously endeavour to reach the quantitative targets that may be set by the Government, it is our submission that the value commitment would be more beneficial to the country." In reply to a similar query from the Commission, the Applicant Company observed in November, 1974, "the Government has been imposing export obligations both in terms of value as well as in terms of percentage of production in different cases. We felt at the time when we made the Application in 1970 the value commitment will ensure an assured earning of foreign exchange for the country and thereby safeguard the total foreign exchange earnings of the export oriented project. Further it may be mentioned......that the exports will form 60% of the annual output of the expected additional capacity."

2.09 The details of the envisaged production and exports for the projected period of five years, as furnished by PIL, are given in Table 22. The total envisaged exports for five years were shown to be Rs. 5.09 crores of which the exports of GLS lamps would contribute Rs. 2.44 crores and FT lamps 2.65 crores.

TABLE 22

Envisaged Production and Exports

	Year						Estimated P (in Millio		Exports en (in Millio		Export to (Rs. in)	
							GLS lamps	FT lamps	GLS lamps	FT lamps	GLS lamps	FT lamps
lst						•	8.0	1.2	4.8	0.72	28.8	21.6
2nd							12.0	3.0	7.2	1.80	43.2	54.0
3rd	•						16.0	3.5	9.6	2.10	57.6	63.0
ŀth							16.0	3.5	9.6	2.10	57.6	63.0
5th							16.0	3.5	9.6	2.10	57.6	63.0
			Т	Тотл	L		68.0	14.7	40.8	8.82	244.8	264.6

Source.—Applicant Company.

- 2.10 In its letter to the Commission dated 8th March, 1975, the Applicant Company revised the export estimates. Average realisation from exports was now placed at Re. 0.75 per GLS lamp instead of Re. 0.60 as earlier envisaged, and Rs. 3.25 per FT lamp instead of Rs. 3.00. The total value of expected exports in the third year is now estimated at Rs. 5.93 crores, Rs. 3.06 crores from GLS lamps and Rs. 2.87 crores from FT lamps.
- 2.11 Since its initial application in May, 1969, the Company has been stating that its parent company, Philips (Holland) has underwritten the export commitment. In this regard they have enclosed a copy of a letter dated 7th May, 1969, received from Philips (Holland). Relevant extracts from the letter are given below:

"Since (sic) to realise these plans (to expand and diversify your range of production in the Kalwa Light Factory) you would be obtaining from us modern machinery as are being currently used herein Europe. It would then be possible for you to produce a full range of products up to our international standards. Consequently, we believe that if you are able to create the capacities, you are now seeking your Government's permission for, within a reasonable time both in quantities and in various types it would be possible for us to arrange for the export of these various types of lamps and/or lamp components from your production to various of our associate Organisations around India." We expect that after implementation of your expansion plan, it should be possible to realise an average annual export level of Rupees five million per annum during the subsequent five years. However to realise such export level, we have to emphasise the importance of an early realisation of your plans......

If it would be likely that the delay will be incurred in securing your Government's permission for your expansion plan, we would much appreciate being informed of same to enable us to make alternative supply arrangements for the relevant (country) organisations."

- 2.12 In its reply dated November 29, 1974 to a question regarding the steps, if any, that the Company may have taken to implement the proposed expansion, PIL submitted: "We have not taken any steps to implement the proposed expansion except to the extent of keeping our associates M/s. N.V. Philips Gloeilampenfabrieken—Eindhoven's interest in this project alive during the past five years."
- 2.13 As regards the assistance that would be available from the parent company for promoting its exports, the Applicant has submitted:

"We expect them (Philips, Holland) to give us assistance not only in the manufacturing side but also in the planning, packaging as well as promoting exports so as to build up a proper export base for our electric lamps. Since Philips have Organisations in almost all the countries in the world, these Organisations can be of assistance to us to promote sale of our lamps made in India and to that extent the cost that would normally have to be incurred in promoting these exports in these countries, would not be incurred by us. Moreover, we would be able to receive a long term projection depending on the state of the economy in different countries and thereby help us in planning out production programme in the most efficient and optimum possible manner.

- "Advertising, sales promotion and other activity associated with marketing all the consumer items like lamps will be handled by various Philips organisations and would, therefore, be of benefit to us."
- 2.14 PIL is not paying any technical assistance fee to its parent Company on GIS lamps. However, in the case of FT lamps it is paying Royalty of 2% under an agreement which is to expire on 30-9-1976. In reply to a question as to whether this royalty would be applicable to the envisaged expansion in FT lamps, PIL has given a reply as under:

"On expiry of the existing agreement, we shall review whether extension of the agreement is necessary and if it is considered necessary, we will apply for the same."

- 2.15 The Applicant Company earlier envisaged the payment of a "technical assistance fee" at the rate of 5% for both GLS lamps and FT lamps payable, "on the export volume." No period had been specified for this. According to the Applicant Company, this fee was to be paid to the parent Company for the technical service rendered in helping PIL to manufacture new types of lamps and for continuously giving it assistance in upgrading its operational efficiency in line with international standards. The proposed technical assistance fee also covered exports of FT. In this regard, the Company had written to the then Ministry of Industrial Development and Internal Trade in its letter dated September 2, 1971: "In respect of Fluorescent Lamps competition in the world market is, in particular, on high performance of lamps achieved through new constructions and technologies which are changing rapidly. As a matter of fact, we have a technical assistance agreement with our associates duly approved by the Government, for the manufacture of FT lamps for the domestic market. In view of the above, we request your approval for the payment of technical assistance fee on exports also."
- 2.16 The Commission had raised various other questions regarding the proposed technical assistance fees in its correspondence with the applicant Company. By its letter of 8th March, 1975, PIL informed the Commission that it had been able to prevail upon Philips (Holland) to waive the technical assistance fees on the lamps exported. What impact this change would have on the services that Philips (Holland) would make available to PIL is not clear. This information came too late for the matter to be explored further. It may possibly imply that certain services for assisting exports which might have been provided by the parent company without any specific charge might not be so available now and special charges for such services might have to be paid. Alternatively, for effecting exports, PIL might have to incur expenses which might not have been necessary if all exports were effected through Philips (Holland).

Possible Benefits from Exports

2.17 PIL has pointed out that though India is one of the major producers of electric lamps in the world, little has been achieved as yet by way of developing exports of this commodity. PIL, 17—8 M of LJ&CA/ND/79

it has been claimed, has taken the lion's share in whatever exports have already been effected. It was claimed that the present proposal would be of significant benefit to the economy. In its letter to the Commission dated 8th March, 1975, the PIL had stated:—

"We would like to inform you that our whole project is based on a considerable benefit of foreign exchange to the country. Not only is the benefit accruing to the country in terms of inflow of foreign exchange from exports, but from the low import content in respect of our production of lamps. We would like to mention that the information regarding import content in the industrial licence application dated 7th October, 1970, was based on the foreign exchange granted by the Government at that time per lamp. We have since, reduced the import content considerably. The attached Table I gives the development of import content per 100 GLS and Fluorescent lamps since 1968-'69.

"The reduction in import content has been achieved despite an annual price increased of imported raw material and considerable fall in the parity rate of the rupee, vis-a-vis European currencies. Thus, the volume of imports per lamp has been reduced much more than shown in the rupee value given in Table I. We would mention that the increase in unit import content in 1973-74 is due to the technical improvements in fluorescent lamps viz., the introduction of triple coil and anode ring in the fluorescent lamp. Philips India are the only manufacturers of fluorescent lamps with triple coil and anode ring—a lamp of internationally accepted quality.

"The export selling prices vary from country to country and from time to time, depending upon quantities and competition activities. The present export prices realisable are on average Re. 0.75 F.O.B. for a Philips GLS lamp and Rs. 3.25 F.O.B. for a fluorescent lamp. This increased unit realisation coupled with decreased import requirement by us results in a substantial foreign exchange earning."

TABLE I
CIF Content per 100 Lamps

(in rupees)

Year			GLS	Fluorescent	Exchange Rate as at the end of the year*
			Rs.	Rs.	Rs. 100
		 	सद्यमव	146	
196970			1.15	8.92	Hfl—48.28
197071	•	•	1.23	7.10	,, 48.28
1971—72	•	,	0.78	8.92	,, 44.58
1972—73		•	1.33	9.39	,, 38.43
197374			0.88	8.09	,, 33.80

^{*}Hfl. means Netherland guilder

TABLE II

Net inflow of foreign exchange

				- · · · -		<u></u> -				(1	(for 5 years) Rs. in m m.)
Export (F.O.B.)*	•	•	•			•			•		59.25
Raw materials				•	•	•		•			1.79
Capital Goods			•		•			•			11.50
Expenses	•	•		•	•		•		•	•	4.44
Total O	utflov	W	•	•	•		•			•	17.73
Net foreign e	xcha	nge ea	rning	S	•						41.52

^{*}Based on F.O.B. prices of Rs. 0.75 for GLS lamps and Rs. 3.25 for fluorescent lamps.

2.18. At the public hearing, the representatives of PIL reiterated this position in the following words:

"We wish to state that our proposal, which is before you, is an export oriented proposal. This is a project that was conceived in 1969 and resubmitted in 1970 at the directive of the Government of India. With quite some effort over the intervening years we have been keeping this project alive by persuading our associates overseas to under-write 60% of the production over a period of 5 years from the date of commencement of production. This project will earn a net foreign exchange of approximately Rs. 4 crores. We would like to mention that this net earning of Rs. 4 crores is based on current international prices and current rate of exchange and after deducting the foreign exchange cost for the import of capital goods, raw-materials and other expenses."

Capital Investment

2.19. The total capital investment required for the proposed project is estimated by the Applicant at Rs. 354 lakhs of which Rs. 175 lakhs will be required for the purchase of machinery and equipment and Rs. 170 lakhs for working capital. The break-up of the total investment is given below:—

TABLE 23

Details of Investment Requirements

	Particu	ılars					Rs. in lakh
l. Land and Building							9.0
2. Machinery and Equipment:	7014	44	J.				
(a) Imported:		E S	A THE				
(i) Hand Operated GLS U	Jnits	95	57		•	•	64.0
(ii) Hand Operated Fluore	escent Unit	2000 2000	1123		•	•	48.0
(iii) Packing Unit Automat	ic	প পা	411	•	•	•	3.0
(b) Indigenous:							
(i) Machines for GLS Uni	its				÷	•	5.0
(ii) Machines for Fluoresce	nt Unit		•		• •	•	8.0
(c) Others:			:			•	
Duty and Clearing expenses	ı			•	•		47.0
. Working Capital		•			٠.	•	170.0
					Тота	AL.	354.0

Source: Applicant Company.

2.20. According to the particulars furnished in March, 1974, to the Department of Company Affairs in the application under the MRTP Act, PIL envisaged a total capital investment of Rs. 166.6 lakhs of which Rs. 12.0 lakhs were earmarked for land and buildings, Rs. 42.9 lakhs for Working Capital and Rs. 111.7 lakhs for machinery and equipment. The estimates of the capital cost of the project has thus more than doubled* between March 1974 and November 1974 (when the

^{*}These figures cannot be compared with the investment requirements indicated in its application for industrial licence dated September/October 1970, has the Company had not then indicated its expected working capital requirements. The estimated requirements of investment on land and building, and machinery and equipment were, however, the same as detailed in Form I in March 1974.

latest data on capital investment were furnished to the Commission vide Company's letter of 29-11-1974). The major increase is in the estimate of working capital which has gone up from Rs. 42.9 lakhs to Rs. 170 lakhs, thus showing more than four-fold increase. The two sets of estimates are given below:—

TABLE 24

Investment Requirements

(Rupees in lakhs)

Investment					· · · · · · · · · · · · · · · · · · ·	March 1974	November 1974
Land & buildings			•			12.0	9.0
Machinery & Equipment		•		. •		111.7	175.0
Working Capital .	•	•	•	•	•	42.9	170.0
			To	TAL		166.6	354.0

Source: Applicant Company.

- 2.21. The Applicant Company has not stated the reasons for the substantial increase made in the estimated investment requirements for the envisaged expansion. Perhaps, this may have been due to the escalation in prices of plant and machinery. Working capital requirements may have increased due to a major extension of the production programme, raising the production to 12 million GLS lamps in the second year of the projected period and to 16 million from the third year onwards. Similar increases have also been projected in the production of FT lamps. When this pointed was put forward at the public hearing. the representatives of the applicant Company appeared to agree.
- 2.22. Of the total capital requirements for machinery and equipment put at Rs. 175 lakhs, imported machinery and equipment is estimated to cost Rs. 115 lakhs, i.e., 65.7% of the total cost of machinery and equipment. This is the cost of two chains for GLS lamps and one chain for FT lamps. In addition, the Company also intends to import and automatic packing unit. The Company has stated that all the imported machinery would be purchased from Philips (Holland) for which, however, no commission would be paid to the parent company. It is known that Hindustan Machine Tools Limited is undertaking the manufacture of chains for lamps in the near future. PIL was asked why it could not purchase the chains for GLS lamps from HMT instead of importing them. In reply (vide its letter dated February 1, 1975), the Company has stated: "We are not aware of the specifications of the machines that is (sic) proposed to be manufactured by Hindustan Machine Tools. Moreover, we understand that HMT is producing machines for manufacture of only normal GLS lamps. Machines for special lamps or fluorescent lamps are not envisaged in the manufacturing programme of Hindustan Machine Tools, as we are informed. If HMT is able to offer machinery to meet our specifications both in terms of type, quality and construction, we can purchase the machines from them." PIL's representative explained this position further at the public hearing in the following words:

"To start with, for this project we are planning to set up 2 GLS chains which are completely different from each other. One of these chains will manufacture both Vacuum and Gas filled lamps from 15 Watts to 150 Watts...... The other chain is different from all the existing GLS chains we have in that it will have to manufacture a whole range of new types of lamps which are required for the export market."

Employment Potential

2.23 PIL has estimated the total employment potential of the proposed project at 247 persons trn a two-shift basis. The details are given below. It may be added that in the application for industrial licence of October, 1970, the employment potential had been estimated at 126 persons. The doubling of the employment potential now appears to be on account of the assumption that the addi-

tional installed capacity will be operated on a two-shift basis, while in the earlier application, the assumption perhaps was that it will be used on one shift basis.

TABLE 25
Estimate of Employment Potential

					Number of estimated employees	
	Categ	ory			Estimate in Nov. Estimate in O 74* 1970	ct.
1.	Managerial				3	2
2.	Supervisory & Technic	cal			14	8
3.	Clerical		•		4	2
4.	Labour:					
	(a) skilled		•		40	20
	(b) semi-skilled	•	•		90	45
	(c) un-skilled			N. Sand	84	42
5.	Others	•	•		12	7
				TOTAL	247	126

^{*}on two-shift basis.

Source: Applicant Company.

Requirements of raw materials and components

2.24. The details of raw material and component requirements for the projected period, as furnished by the Applicant Company, are given in Tables 26 and 27. These requirements are based on one type of GLS lamp and FT lamp each. In reply to a query, the Applicant Company, vide its reply dated November 29, 1974, has explained how it plans to meet the requirements of raw materials and components for the proposed expansion:

GLS Lamps

"In respect of GLS lamps, the quantitative requirement of Led glass products for our own internal requirement is relatively marginal so as to influence our deliveries to third parties. We expect to meet this additional requirements through efficiency improvement. So far as filaments are concerned, there will be a marginal reduction in the delivery of filaments to third parties. For this reason, we have submitted to the Government some time ago our expansion proposal and we have now been informed by the Government that this application has been rejected.

So far as Lead-in Wires are concerned, we are manufacturing only for our captive consumption and we hope to be able to meet our internal requirement by efficiency improvement.

So far as Glass Shells are concerned, we expect that there will be a shortfall after fully utilising our internal production. However, the Government has licensed a large number of parties to manufacture Glass Shells and we expect that these licences will be implemented by the time we would implement our project and that we would be able to draw on their supplies. However, in the event of this not taking place, we have proposal for submission to the Government to increase our production of Glass Shells by adding another bulb-blowing machine in our factory.

"In respect of Fluorescent lamps, all the remarks mentioned above apply, with the addition of Fluorescent Powder, where we have adequate spare capacity to be able to meet our additional requirements, without affecting any supplies to third parties. All other raw materials are purchased from various other suppliers in the country and we do not expect to face any difficulty in their not

meeting our additional requirement, in as much as this constitutes a very small percentage of the total increase in the growth of the lamp industry envisaged in the coming years."

TABLE 26

Requirements of Raw Materials and Components for GLS Lamps
(Example 60 W)

Description of the raw material/component	Unit	First year for 8 mln. lamps	Second year for 12 mln.	Third year for 16 mln. lamps	Fourth year for 16 mln. lamps	Fifth year for 16 mln. lamps
1	2	3	4	5	6	7
(1) Lead Glass	. tonnes	58	87	116	116	116
(2) Leading-in Wire	. mln.pcs.	. 18	27	36	36	36
(3) Tungsten Filaments	s . mln.pcs.	8.8	13.2	17.6	17.6	17.6
(4) Molybdenum wire	. mln.mtrs.	0.46	0.69	0.92	0.92	0.92
(5) Gases	. mln.ltrs.	2.5	3.75	5.0	5.0	5.0
(6) Gettering	. ltrs.	800	1200	1600	1600	1600
(7) Glass Shells	. mln.nos.	8.4	12.6	16.8	16.8	16.8
(8) Aluminium Caps	. mln.nos.	8.4	12.6	16.8	16.8	16.8
(9) Capping Cement	. kgs.	21,120	31,680	42,240	42,240	42,240
10) Solder Wire	. kgs.	6,400	9,600	12,800	12,800	12,800
11) Stamping Peste	. kgs.	6.4	9.6	12.8	12.8	12.8
12) Packing Roll	. mln.mtrs.	1.72	2.58	3.44	3.44	3.44
13) Printed box	. mln.nos.	0.08	0.12	0.16	0.16	0.16
14) Plates	. mln.nos.	0.08	0.12	0.16	0.16	0.16
15) Gum Tape	. mln.mtrs.	1.84	2.76	3.68	3.68	3.68

TABLE 27

Requirements of Raw Materials & Components for F.T. Lamps
TL LAMPS (40W Triple Coil)

Description of the ray material/component		First year produc- tion 1.2 mln.	Second Year produc- tion 3.0 mln.	Third Year produc- tion 3.5 mln.	Fourth Year produc- tion 3.5 mln.	Fifth Year produc- tion 3.5 mln.
1	2	3	4	5	6	7
(1) Lead-in-Wire (2) Lead Glass Tubing	Mln.pcs.	5.4 17.25	13.5 43	16.05 50	16.05 50	16.05
(3) Filaments	. mln.pcs.	2.65	6.6	7.7	7.7	50 7.7
(4) Shells	mln. pcs.	1.272	3.18	3.71	3.71	3.71

TABLE 27-Contd.

	1		2	3	4	5	6	7
(5)	Emitter		ltrs.	72	180	210	210	210
(6)	Mercury		kgs.	126	315	367.5	367.5	367.5
(7)	Gases	•	ltrs.	12,000	30,000	35,000	35,000	35,000
(8)	Aluminium Caps		mln.pcs.	2.51	6.30	7.35	7.35	7.35
(9)	Capping Cement		kgs.	600	15,000	17,500	17,500	17,500
(10)	Solder		kgs.	300	750	875	875	875
(11)	Flu. Powder/Nitro- cellulose		kgs.	11,262	28,155	32,850	32,850	32,850
(12)	Chemicals		ltrs.	11,727	29,316	34,200	34,200	34,200
(13)	Marking Paste		kgs.	1.2	3.0	3.5	3.5	3.5
(14)	Anode Strips		kgs.	1,080	2,700	3,150	3,150	3,150
(15)	Centre lead		mln.mtrs.	0.054	0.135	0.157	5 0.157	5 0.1575
(16)	Aluminium Oxide		kgs.	10.14	25.35	29.58	29.58	29.58
(17)	Sleeves		mln.pcs.	1.25	3.12	3.64	3.64	3.64
(18)	Packing Box		mln.pcs.	0.048	0.12	0.14	0.14	0.14
(19)	Gum Tape		mln.mtrs.	1.9	4.755	5.547	5 5.547	5 5.5475
(20)	Thermocole		mln.pcs.	0.096	0.24	0.28	0.28	0.28

2.25. In its application to the Department of Company Affairs in March, 1974, PIL had stated that for the production of 100 GLS lamps, the c.i.f. value of imported raw materials and components would be Rs. 4.00—Rs. 2.20 for raw material and Rs. 1 80 for components. The corresponding figure for 100 FT lamps is Rs. 32.50—Rs. 27 for raw materials and Rs. 5.50 for components. The items which the Company intended to import are given below:—

			7.1	-4.14	-1-4-1				
G.L.S. Lamps									
Stamping paste	•	•	•	•	÷		•	•]
Novolac	•	•	•	•	•	•	•	•	
Hexamethylene Tetra	mine			•		.•	•	•	
Melachite Green		•						•	
Lithophone	•		. •	•				•	Hfl. 1.90*
Silicone resin	•	•	•		• •	•			per 100 lamps or
Pigment suspension w	hite	•	•	•		•,			Rs. 4.00 per 100 lamps
Binder		•		•		•		•,	
Red Phosphorous	•	•	•	•		•	•		
Special marking mate	rial fo	r tem	perati	ıre ind	licatio	n leac	ling i	n wire	
Joining wires—silicon	e bron	ze, m	onel v	wire	•	•	•	•	}

^{*}At the central rate of exchange prevailing at the time of submission of industrial licence application.

Fluorescent lamps

Emitter .								.]	
Binder .									
Resin Cement por	wder			•			•		
Argon Pure 100%)							.	!
Argon neon							•		
Silicone resin								•	Ì
Ethyl lactate tech	i. .								
Mercury .							•		
Monoethyl glycol	ether								Hfl. 15.50*
Marking Paste									per 100 lamps
Pigment suspension									or
Diammonium Pho	osphat	e susp	ensior	1				•	Rs. 32.50
Dibutyl phthalate									per 100 lamps
Dimethyl-Dichle	ore—si	ilane						•	
Sorbitan Manolau								•	
Special marking r	nateri	als for	temp	eratui	re indi	cation	ı		
Leading in wire							•		
Anode strips								•	
Centre leads								•]
Standard lamps								٠ ,)

*At the Central rate of exchange prevailing at the time of submission of Industrial Licence application.

- 2.26. On the basis of these figures, we have computed the total foreign exchange requirements for the projected period of five years, for the estimated production emanating from the proposed expansion. These data are presented in Table 28. The total foreign exchange requirements of the expansion proposal by way of imported raw materials and components amount to Rs. 74.99 lakhs during the projected period of five years, on the basis of the exchange rate prevailing in 1970. At the current exchange rate, the foreign exchange requirements work out to Rs. 109.96 lakhs.
- 2.27. The Company had also stated that the value of the imported raw materials and components would amount to 1.84% and 3.26% of the estimated annual factory value of GLS lamps and FT lamps respectively. The Company was asked if there was any further possibility of reducing the present import content. In its reply dated February 1, 1975, the Applicant Company has stated: "The reduction in the import of raw materials to reduce the import content in all products including the lamps has been a continuous process. We have to the best of our knowledge lowest import content in the lamp industry." It had indicated that the following items which are present being imported will be "substituted with indigenous materials. Work on this is on hand in our Laboratories." It has also stated that "the production of leading in wires in our factory has commenced." However, the Applicant Company has not indicated specifically any period during which the reduction in import content will take place:

GLS lamps:

- (i) Novolac
- (ii) Melachite Green
- (iii) Lithophone
- (iv) Silicon resin.
- (v) Pigment Suspension white
- (vi) Red Phosphorous

Fluorescent Lamps

- (i) Resin cement powder
- (ii) Argon Pure 100%
- (iii) Silicone resin
- (iv) Ethyl lactate

(v) Mercury

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- (vi) Mono ethyl glycol ether
- (vii) Pigment suspension
- (viii) Diammonium Phosphate Suspension

2.28. As already indicated earlier by its letter dated 8th March, 1975, PIL informed the Commission that after taking into account various developments by way of import substitution since its application was made, it has been possible to bring down estimates of import requirements. It has now been pointed out that actual expenditure on imported components and raw materials would be much less than what was indicated earlier (See paragraphs 2.17 & 2.18 above). Further details in this respect have however not been furnished.

TABLE 28

Import Content in the Envisaged Production

	Unit	Li- censed capa- city	lst year	2nd year	3rd year	4th year	5th year	Total for the five years	Per- centage of imput content of the
1	2	3	4	5	6	7	8	9	output 10
1. G.L.S. Lamps:			-		IY		· .		
(a) Production .	(Mln. Nos.)	9.0	8.0	12.0	16.0	16.0	16.0	68.0	
(b) Value of imported raw-material per 100 lamps.	Rs. in lakhs		Tile Tile	र्यभव स्यमेव	नयने		·		
(i) at Rs. 2.2. (ii) at Rs. 4.0.	"		1.76 3.20	2.64 4.80	3.52 6.40	3.52 6.40	3.52 6.40	14.96 27.20	
(c) Quantity to be exported .	(Mln. Nos.)		4.8	7.2	9.6	9.6	9.6	40.8	
(d) Value of exports .	Rs. in lakhs		28.8	43.2	57.6	57.6	57.6	244.8	
2. F.T. Lamps						*			
(a) Production .	Mln. Nos.)	2.25	1.20	3.00	3.50	3.50	3.50	14.70	
(b) Value of import- ed raw-material per 100 FT lamps	Rs. in lakhs								
(i) at Rs. 27.0	,,	6.08	3.24	8.10	9.45	9.45	9.45	39.69	
(ii) at Rs. 32.5	,,	7.31	3.90	9.75	11.38	11.38	11.38	47.79	
(c) Quantity to be exported .	(Mln. Nos.)		0.72	1.80	2.10	2.10	2.10	8.82	
(d) Value of exports	Rs. in. lakhs	, ,	21.6	54.0	63.0	63.0	63.0	264.60	

Ancillary Purchases

2.29 The Applicant Company has stated that it will continue to procure under the proposed expansion programme those parts and materials which it purchases at present from outside units for the manufacture of GLS lamps and FT lamps. Details of the purchases to be made for the proposed expansion are given below:

TABLE 29

Materials and Components to be purchased from outside units

For GLS lamps (for 9.0 mln. pcs)	·							Unit		Value in s. 000's
1. Aluminium Caps	•	•	•		•			Pcs.	9.5 mln.	1,500
2. Solder Wire.			٠		•			kgs.	7,200	149
3. Dry Nitrogen	•		,•			•	•	M 3	725	3
4. Argon Gas (92%)	•							M3	2,000	83
5. Paper and Paper pr	roducts				•				2.0 mln.	1,386
For Fluorescent lamps (for 2.25 mln. pcs.)										
1. Aluminium caps	•			- 5	Cours.			pcs.	4.75	700
2. Solder Stick			8	534		1		kgs.	560	25
3. Paper & Paper pro	ducts.		. "						2.33 ml	n. 2,016

Source: Applicant Company.

- 2.30. It may be noticed from the above Table that the only item which can really be called an ancillary item is aluminium caps. It is thus obvious that for most of its requirements of raw materials and components, in future, as hitherto, PIL will continue to depend on either its own production or imports.
- 2.31. The Applicant Company has indicated that, with the availability of new types of lamps that it intends to produce, small scale units could develop a whole range of luminaries. In reply to a question from the Commission, the Company has explained the position as Under:—
 - "Luminaries are designed and built to meet the specific needs, utilising specific lamps. Presently, we have luminaries for normal fluorescent lamps for use in different locations. When the new lamps mentioned above are available in the country, a whole new range of luminaries will have to be developed and marketed in the country to meet the specialised needs that are developing economy like ours. Application assistance to design and produced these fittings are provided by us.
 - "To cite an example, the production of Bowl Reflector Lamps will lead to the design and production of luminaries for homes, for factories where precision work is involved and where glare cannot be tolerated and for shops, show-windows, restaurants, theatres, etc. These lamps will have to be incorporated in specially designed fittings to take advantage of their inherent characteristics.
 - "Similarly, in the case of fluorescent lamps, the manufacture of 26mm. diameter 15W and 30W lamps, would lead to the production of compact portable lamps. Ancillary industries could take up the production of these different types of luminaries to utilise these lamps. These are but two examples of possible developments that could take place when the manufacture of these new lamps commence, resulting in further growth and development of small scale ancillary industries.

Justification for the Proposal

- 2.32. PIL has justified its proposal by advancing the following pleas:
- "This is a project which is essentially export oriented. At a time when the country is passing through a difficult phase in respect of foreign exchange requirements and also with the keen

desire to become self-sufficient even in respect of foreign exchange, the considerable earning of foreign exchange arising out of this project would enable the country to meet the foreign exchange requirements for imports of such essential as food, fertilizers and industrial raw materials.

- "....The major export activity of the order envisaged in this project particularly in the lamp field has not been attempted by any manufacturer in the country and this project would place India on the world map as a major producer of quality lamps."
- "....Philips have always had a reputation for establishing and maintaining high standard, of quality in all its products. This is particularly so in respect of its lamps. The consumer in the country has, over the years, been able to obtain lamps of an international quality at a price which has been almost stable for a very large number of years till economic conditions necessitated increases. The quality of Philips Lamps and the maintenance of price stability are two major contributions that this project would further add in the Indian Lamp industry scene.

"Philips have been marketing lamps in the home market not just in the primary market of principal cities, but have ensured the availability of electric lamps even in rural areas, when rural electrification created a demand for electric lamps. By an orderly pattern of distribution and organised marketing arrangements, Philips are in a position to ensure the continued availability of lamps in the rural areas. With the extensive rural electrification programme that is envisaged by the Government, lamps arising out of this project will be available in the world market and in the home market."

2.33. The Company was asked as to how 40 per cent of the envisaged additional production (meant for domestic market) will fit into the demand and supply position of the country as it exists today and is likely to be 5/6 years hence. In reply the Company has submitted:

"The following table gives the home market for GLS and fluorescent lamps in 1973 and 1980-81 vis-a-vis Philips' share.

(In mn.pcs) 1973 1980-81 All India Philips* %Share All India Philips* %Share GLS Lamps 140 35 25 ...280 41.4 15 Fluorescent Lamps 12.5 4.4 35.2 34.5 5.8 16.8

- "The market for 1980-81 is based on annual growth of 10 percent for GLS lamps and 15 per cent for fluorescent lamps which is considered to be the minimum growth.
- "It may be observed that the 40% of the additional production viz. 6.4 mn GLS and 1.4 mn fluorescent lamps constitutes a very small part of the growth expected in the total market for GLS and fluorescent lamps (140 mn. and 22 mn respectively). As mentioned earlier the actual growth may be even more than what has been taken in the above calculation.
- "The present licensed capacities (including letter of intent) for GLS and fluorescent lamps are 290 mn and 24 mn respectively. The difference of 10 mn GLS lamps between estimated minimum demand and licensed capacity is less than 5%. Our past experience shows that there had always been a gap between the total licensed capcity and actual production in respect of these products.
- "It is expected that the rest of the industry in the country will also contribute to their share of exports, which will reduce the availability in the home market.
- "Lastly, lamp being an essential commodity, there should not be any shortage in the market, rather small surplus is preferable. This will create an atmosphere of competition in the market.

^{*}includes supplies from ELMI/Hind and 40% of the additional production envisaged in 1980-81.

"With a massive expenditure estimated during the next year on power generation, the trend of which is expected to continue, the demand for lamps is expected to grow further. As such, expansion sought by Philips India is not likely to adversely affect the demand and supply position of GLS lamps in India.

"As regards fluorescent lamps, it is seen from above that there will be a large shortage for which additional capacity will be required.

2.34. One of the justifications put forth is that the proposed expansion will establish India as a quality producer of electric lamps in the world market. It was pointed out to the Applicant Company that, as it is already a producer of quality products, how would be the quality of lamps to be produced be different from what the Company produces now? In reply, the Company has stated:

"India has been exporting only negligible quantity of normal GLS lamps and standard fluorescent lamps as are being sold in India. The proposed expansion which covers a whole package of lamps to the different countries from India, is essential to establish India in the lamp export market in real terms."

"Philips India has been manufacturing normal lamps to world standards and will continue to manufacture lamps to world standards. The proposed expansion and the proposed volume of export envisaged, combined with the quality standards established by Philips India and combined with a whole package of lamps that are offered, will in our opinion, act as a pace setter in the world market, to establish India as an exporter of quality lamps. This we hope would enable other manufacturers to follow suit."

2.35. In reply to the Commission's question as to how this expansion will be socially advantageous, PIL has replied as under:—

"Lamps is an essential commodity for mass consumption.....the quality of lamps, the maintenance of quality of the lamp on a continuous basis, and orderly and proper distribution arrangements, ensure the availability of lamps in the remote parts of the country at all points of time rather than create pockets of scarcity and surpluses. Moreover, Philips have over the years reflected new developments in the lamp industry in the construction of lamps, in new types of lamps and have made them available to the Indian public lamps such as coiled coil lamps, inside white Arganta lamps, Fantasy lamps (while fluorescent lamps), cool day light fluorescent lamps, fluorescent lamps with triple coil electrodes, reflectors fluorescent lamps, have all been introduced in the country by Philips for the first time and in many instances, they are still the only manufacturer who has introduced these new types of lamps to the Indian consumer both in the domestic as well as in the industrial areas.

"Philips is the most integrated lamp manufacturer in the country manufacturing tungsten and fluorescent filament, fluorescent powder and glass shells, starting from primary raw materials, and as such is in a position to ensure that the end products are of quality comparable to international standards and to meet international market requirements. Moreover it is to be recognised that the lamp industry is a highly machine based activity. Over the years there have been considerable improvement in the lamp making machines which have resulted in (i) reduction of waste (saving of precious foreign exchange) (ii) Improvement of speeds (increased outputs) and (iii) improvements which have resulted in better quality of finished products (coil feeders)."

"All these developments are continuous and because of the fact that Philips India has close relationships with N.V. Philips' Gloeilampenfabrieken, one of the largest producers of electric lamps in the world, who has an extensive development activity in the lamp making machinery field, they have been able to reflect new improvements in machines on a continuous basis to the advantage of the Indian consumer."

"It is our experience that to build up the necessary knowledge and competence in handling lamp making machinery it takes very many years before it can meet international standards in terms of quality and efficiency. It is doubtful whether any of the existing units or any of the new undertakings that may be set up will be able to derive the advantages that we derive out of our association with N.V. Philips' Gloeilampenfabrieken and thereby meet the requirements not only of the Indian consumer but also of the international buyer."

Economy in Cost of Manufacture

- 2.36. PIL was asked to explain the benefits that will accrue from the proposed expansion in terms of economy in cost of manufacture, functional improvement and enhanced ability to compete in the global market. In reply, the Applicant has submitted:—
 - (i) Economy in cost of manufacturing.—"Since it is proposed to locate the units in the present kalwa complex the existing technical specialist and service departments will be able to meet the requirement with only marginal additions in terms of personnel and/or services. The lamp industry requires a number of services such as compressed air, gases and LPG. These facilities are called services and have to meet the requirement of any given complex. The proposed additions would not call for any major additions in terms of service and would therefore have its direct economic benefit in the cost of manufacture. Moreover the overheads of the Kalwa complex when it spread on a larger volume of production will result in better economies so as to make our prices for export purposes more competitive."
 - (ii) Functional improvements.—"The export requirements generally cover a wider range of types of lamps than are now being manufactured in the country in order to meet international requirements. In catering to these increased range, it is expected that there will be an improvement in the services both functional and quality levels."
 - (iii) Enhanced ability to compete.—The global requirement of lamps can be categorised in various types, sizes voltages and wattages, apart from caps. In respect of fluorescent lamps, global requirement can be particularly categorised in different sizes, voltages and wattages. It is proposed in this project to undertake the production of selected number of new types to meet the global market requirements and which are currently not being manufactured in the country. The Philips nomenclature for these lamps are 'K' lamps, Superlux lamps, colour Decoration Lamps and R20 Reflector lamps. In the Indian market, we are presently marketing lamps only in 230V, whereas market requirements exist in voltages ranging from 90V to 240V. So far as cap execution are concerned, while basically, Indian market requirements is only for B-22 caps export market requirements are for B-22 and E-27 caps. In addition, there are multi-wattage lamps. These are lamps in which we have the facility to switch over to 3 different wattages—viz. 40-60 and 100W. The production of these lamps are also envisaged depending on the requirement of the global market.
 - "Any other benefit.—The lamps that are being proposed to manufacture for export, as mentioned earlier, also include certain new types. This increase in the range of types of lamps would enable also the Indian consumers to derived the benefit of these new lamps and meet the Indian consumers specialised needs. These new types call for improved and modified machinery that are available at present in the factory and would utilise new techniques in terms of lamp construction hitherto not applied in India. In addition, with availability of these new types of lamps, it may be expected that the Small Scale Industry can develop a whole range of luminaries (light fittings) and thereby develop a wholly new activity."
- 2.37. While providing clarification about the economies resulting from large scale of production, the Applicant has stated:
 - "Beyond a certain level, scale of production does not necessarily result in any substantial reduction in cost of production."
- 2.38. In short, PIL has justified its proposal for effecting substantial expansion in the manufacture of GLS and FT lamps on the following grounds:
 - (1) The proposal will earn valuable foreign exchange for the country.
 - (2) It will establish India as a quality producer of electric lamps in the world market.
 - (3) Since new types are proposed, it will benefit the Indian consumer in making available to him new types of lamps, hitherto not available in the country.

- (4) With the introduction of these new types of lamps, a whole range of ancillary industries and manufacture of luminaries could be developed in the country.
- (5) It is hoped that, with the pace thus set by it, the other units of the Indian lamps industry would be able to follow suit in the national and international markets and build up further lamp exports and develop ancillary industries.
- 2.39. At the public hearing, PIL's representative summarised the justification for the proposal in terms of Section 28 of the M.R.T.P. Act follows:—
 - "(a) It would achieve the production, supply and distribution of lamps in the most efficient and economic means as well as best meeting the requirements of the home and overseas markets.
 - (b) It would ensure the best utilization of all the factors of production.
 - (c) It would introduce technical and technological improvements in the lamp field which will open up new markets for our products abroad while also benefiting the Indian consumer and the Indian economy—through investment in productive resources, employment, generation of skills, wealth and creation of capital, contribution to the exchequer, etc.
 - (d) It would also result in new and further development of a large number of ancillary units and third-party suppliers who are presently making supplies to our lamp factory of various components and spare parts. Most of these ancillary units are in the small and medium scale."

CHAPTER III

OBJECTIONS TO THE PROPOSAL

3.01. In response to the Commission's Press Notification published in leading newspapers on July 29, 1974, and the questionnaires issued by the Commission to the existing producers and prospective entrepreneurs, calling for their comments on the proposal, we have received objections from 19 parties—seven large scale units registered with the D.G.T.D., six small scale units, three marketing companies, one public sector undertaking and two individuals. The objectors include well-known large scale lamp manufacturing units, such as the Bengal Electric Lamps Works, Sylvania and Laxman, Mysore Lamp Works, Bijilee Products and Pradip Lamp Works. The three marketing companies who have objected are Bajaj Electricals, Mazda Lamp Co., and Crompton Greaves, all of them being co-shareholders with Philips (Holland) in ELMI and Hind Lamps. In addition, objections have also been raised by the All-India Lamp Factories Association, Calcutta and All-India Small Scale Lamp Manufacturers Association, Calcutta. Among the Government Organisations, the Office of the Development Commissioner, Small Scale Industries, has expressed its opposition to the proposal of PIL. The names and addresses of the objectors are given in Appendix III. The main objections raised are summarised and explained below.

Monopolistic Position of PIL

3.02. As explained earlier, because of the shareholding of Philips (Holland) in ELMI and Hind Lamps, PIL is able to secure supplies of lamps produced by these two companies—35% of ELMI's and $17\frac{1}{2}\%$ of Hind Lamps' annual production. These supplies along with its own production are marketed by PIL under its own brand name 'Philips'. In this manner, it is claimed, PIL accounts for 29% and 51.9% of the total sales in respect of GLS lamps and FT lamps respectively.* The management of ELMI and Hind lamps is under the control of Philips. It is feared by the objecting companies that the proposed expansion if granted will further strengthen PIL's monopolistic hold on the domestic market and will simultaneously weaken the position of the other existing units.

One of the objectors has stated:

"Government's well directed intentions in granting letters of Intents to a number of new entrants was to reduce monopoly. If Philips' proposal is permitted then this idea will be defeated and the already dominant status of this MULTINATIONAL giant company will be boosted in a big way. We are sure that Govt, will see that no harm comes to existing Indian Sector Companies, to new entrants, monopoly is not enhanced, and future exportability of the product and more so of machines, materials etc., of the Indian Sector is not jeopardized.

"New entrants in the Indian Sector like us who are making serious and strenuous efforts to develop the technology without foreign collaboration and against great odds to achieve self reliance, will be forced to abandon their plans" if Philips is allowed to expand.

Another objector has submitted:

"You are no doubt aware that M/s. Philips India Limited directly and through their participation in other companies, such as the Electric Lamp Manufacturers India (P) Limited, 1-Tatatolla (Taratolla) Road, Calcutta (35% Shareholding) and Hind Lamps Limited, Shikohabad (U.P.) (17½% shareholding) are managing these companies and according to their shareholding in these companies, proportionate production is manufactured in *Philips Brand* for distribution in the market. In this manner, the total quantity of lamps and tubes sold by Philips India Ltd., in their brand is as follows:—

		Million
1.	Philips India Limited, Kalwa Factory (although their licensed capacity is only 12 million)	26.50
2.	ELMI—(total production 26 million), out of which 35% produced in Philips brand and sold by Philips India Ltd	9.10
3.	Hind Lamps Ltd., Shikohabad—(total production 30 million) out of which 5.25 million is produced in Philips brand and sold by Philips India Ltd	5.25
	(A)	40.85

^{*}Comments of Bengal Lamps, and also Indian Lamp Factories Association.

Flu	oreseent Tubes:						Million
2.	Philips India Ltd., Kalwa ELMI, Calcutta						4.50 1.05
3.	Hind Lamps Limited Total Qnty. manufa						$\frac{0.55}{6.10}$

"As against the above, the total All-India production at present is 140 million pieces of GLS lamps and 11.75 million pieces of Fluorescent Tubes. Hence, a substantial portion of the All-India production is manufactured under the Philips brand. The following data depicts (depict) the share of Philips brand in the Indian Market before and after the expansion:—

			(Figures in Mill All India	ion Pcs.) Philips	Percentage of	of (B) on (A)
			A	В	Before Expansion	After Expansion
I.	GLS Lamps	· · · · · · · · · · · · · · · · · ·				
	Present Production		. 140.00	40.85	29.2%	
Add:	Proposed Expansion		9.00	9.00		
		Total	. 149.00	49.85		33.5%
II.	Fluorescent Tube:		(基础定量的			
	Present Production		. 11.75	6.10	51.9%	
Add:	Proposed Expansion		. 2.25	2.25		
		Total	. 14.00	8.35		59.6%

[&]quot;You will kindly observe from the above that in the event of the proposed expansion by Philips India Ltd., their hold in the Indian Market, which is already very significant, will be further strengthened, thereby weakening the position of the Small-Scale Manufacturers.

(ii) Huge Financial Resources

3.03. The position in this regard has been explained by one of the objectors as under:—

"By virtue of their (PIL)/large scale operations and a very high profitability on their (PIL) activities, Philips India Ltd. are in a position to use their strong financial position as a leverage in implementing their sales and financial policy in their dealings with other manufacturers of lamps in India. As a result of this we find that any other lamp Manufacture, in India dealing with Philips Lamp components have to abide by the terms and conditions of sales as dictated by Philips."

(iii) Drain on Foreign Exchange

3.04. It has been pointed out that the quantum of foreign exchange earned on exports by a foreign controlled firm will be much less when compared with that earned by Indian manufacturers. The net gain for the nation in exports made by a foreign company would be less because a part of its profits (including export earnings) would be repatriated in the form of royalty, dividends, technical know how fees etc. One of the objectors has submitted in this regard:—

"It may kindly be noted that in view of their more than 60% foreign equity holding, Philips India Ltd. also remit large amount of foreign exchange by way of royalty, dividend income and technical know-how fees whereas other Indian Lamp Manufacturers with 100% Indian

[&]quot;We are, therefore of the firm opinion that the proposed expansion by Philips India Limited will, cause very severe damage to the operations of the Indian manufacturers."

equity holding....were not at any stage required to remit any part of their carnings either from export or from profits earned in the process of their business in the country.

"We have been informed that Government of India is formulating its policy with regard to foreign holding companies which would be required to reduce their foreign equity holding below 40% whereas Philips India Ltd. to the best of our knowledge have not complied with the above directive. Further, we understand that companies with foreign holding would not be permitted to have products manufactured by other manufacturers in their brand and market the same in India.

"As you are no doubt aware, Philips India Ltd. are obtaining supply of various lighting fittings, ballsets, etc. from Small and Medium Scale Manufacturers in their brand and are marketing the same in India. It is also reasonable to assume that profit accruing from such activities are also being remitted abroad by way of dividend income."

(iv) Powerful Brand Image and Premium on Prices of Philips Lamps

3.05 As a result of using an internationally well-known brand name—Philips, the products of PIL are popular in the Indian market. It is because of its brand image that PIL pays only $17\frac{1}{2}\%$ trade discount as against more than 25% paid by other lamp manufacturing companies. The Indian Lamp Factories Association in its memorandum has pointed out that Bajaj, GEC, Crompton and Greaves and Mazda are shareholders of ELMI and Hind lamps, and they along with Philips obtain their supplies of lamps from the same sources. The wholesale prices of PIL are however higher than those of the others. This is evident from the data given below:—

Wholesale	Market	Prices-End	January	1974	(Rs.)
		PARKET VERY	CLUC-DVI - CV		

Specifications				Per dozen	Philips	Mazda/ Osram	Cromp- ton	Bajaj	GEC
1				2	3	4	. 5	6	7
GLS Lamps:					44	17			
25W		•	•	Dozen	25.00	22.00	21.00	22.50	21.00
40W	•	•		,,	28.00	24.00	23.00	25.00	24.00
60W	•			,,	29.00	26.00	24.00	27.00	25.00
100W	•		•	,,	36.00	30.00	30.00	32.00	29.00
FT Lamps:									
2′20 W				Pieces	14.00	12.00	12.00	13.00	12.00
4′ 40 W				,,	15.50	14.00	13.00	14.00	13.00

In this connection one of the objectors has stated:

"....Philips have a foreign brand name, popularity in the Indian wholesale market, all their products such as GLS lamps, Fluorescent Tubes, Fittings & other various products either manufactured by them or purchased from other indigenous manufacturers in their brand are sold at a considerable premium as compared to similar products marketed under indigenous brand names. Any increase in the production capacities of Philips will, therefore, certainly increase their hold in the wholesale market and further strengthen their near monopoly position."

Another objector has submitted:

"....Although Philips (Holland) cannot claim a prime position in the world lamp market, they have been able to achieve a dominant position and a powerful brand image on account of Philips contribution to Sound Technology and Electronic Components manufacture. This worldwide image has been very usefully employed by Philips India Limited particularly in the Indian market."

(v) Adverse Impact on the Supply of Raw materials and Components

3.06 PIL is the largest manufacturer of glass shells, lead glass tubing, and filaments. Many other lamp manufacturers depend upon PIL for their supplies of raw materials and components. Several objectors have referred to a gradual decline in the supply of components by PIL.

One of the Objectors has stated:

"As a result of the power-cuts imposed by the various States, the supply position of most of the components viz. Aluminium Caps, Glass shells, Brass Caps, Petroleum-based chemicals, packing materials, etc., has been very severely affected. Consequently, the lamp Manufacturers have to procure their requirements from the limited stocks available in the market, not only at significantly higher prices, but also from different locations, sometimes incurring very heavy freight charges. This has severely affected the economy of the operation, particularly in respect of Small Scale units, who do not have adequate funds to build up stocks. Unfortunately, this scarcity of supplies is not applicable to a monopoly house like Philips since by virtue of their standing in the market, and on account of their very high profitability accruing from large scale operations, they are in a position to procure their raw material requirements at higher prices. Moreover, due to their 'Capacity to pay', most of the suppliers would be eager to enter into long term contracts for exclusive supplies to Philips.

"In view of the above, if Government approval is granted to Philips for further expansion, there will be total dislocation of supplies of lamp components and other scarce raw materials to smaller units. It is pertinent to note that due to scarcity of raw materials and components, at least five Small/Medium Scale Lamp Manufacturers are on the verge of closure in West Bengal itself. Most of these units have been operating at less than half the rated capacity due to inadequate supplies of raw materials and components. We would like to quote the example of M/s. Bharat Electrical Industries Ltd., Calcutta, who had to declare repeated lay-offs on account of shortage of raw materials and components."

3.07 It has also been pointed out that the prices of raw materials and components have been increased by PIL frequently, whereas the lamp prices have not been raised in the same proportion. Such pricing policy by PIL is said to have threatened the very existence of the smaller units. PIL is said to enjoy almost a monopoly position in some of the parts and components required for the manufacture of GLS & FT lamps. As a consequence of this position, the company, it is said, manoeuvres the supplies in such a way as to make maximum profits.

An objector has stated:

"We have been purchasing from them (PIL) the lead glass tubing and Tungsten filaments. While there has not been much difficulty in getting the lead glass tubing from them, we were facing a great difficulty in getting tungsten filaments and tungsten wires. There have been some problems in the dimensions of the lead glass tubings, which has resulted into very high rejection rate in our manufacturing, but since we have no other alternative, we have to accept whatever quantity we get from them. With regard to the tungsten filaments, their supplies have been so scanty that we cannot depend on them. As regards tungsten wires, we have not been able to get any quantity released from them for our captive use."

(vi) Continued Dependence on Foreign know-how and Research & Development

3.08 It has been stated that PIL depends upon Philips (Holland) for all the technical know-how. If a company which depends on a foreign source for research and development is allowed to expand this will come in the way of developing R&D for this industry within the country. One of the objectors has stated in this regard:

"....Indian self reliance in technology will never be achieved and by the time Indian Sector reaches self-sufficiency with respect to present technology, the technology in the foreign countries will have gone far ahead. It is, therefore, highly desirable that the Government must give all possible encouragement and assistance to Indian companies which have no foreign shareholdings to establish GLS lamps and Fluorescent Tubes manufacturing units and to produce to the maximum extent. In this way only, they can generate sufficient funds to establish intensive Research and Development facilities and enable Indian Technology to catch up with swiftly moving advances in the foreign countries."

(vii) Existing Production of PIL is much above the Licensed Capacity

3.09 It has been pointed out by an objector:

"As you are no doubt aware, Philips India Ltd., was favoured with Industrial Licensed Capacity for 8 million pcs. of GLS lamps and for 1.2 million pcs. of Fluorescent Tubes per annum. Subsequently, in the year 1971, on 1½ shift basis their capacity was regularised on maximum utilisation basis at 12 million pcs. for GLS lamps and at 1.8 million pcs. for fluorescent Tubes per annum. It would, however, be evident that their actual production of GLS lamps at their Kalwa Factory, Bombay, is in the region of 24 million pcs p.a. and FT at about 3.5 million pcs. per annum.

"The excess production over and above the licensed capacity for GLS lamps and Fluorescent Tubes have been achieved by Philips India Limited in view of the facilities installed by them for production of lamp components. In other words, they are obtaining import licences for import of raw materials for their GLS and Fluorescent Tube Plants and also they are obtaining actual users' import licences for import of raw materials for their components factory at Kalwa, Bombay.

"Major portion of the components are being used for GLS lamps, Fluorescent Tubes and Mercury Vapour lamp production facilities installed at their Calcutta factory. In other words, they are able to obtain import licences to achieve much higher production in the above manner whereas other lamp manufacturers are unable to achieve a higher production due to restrictions on import licences for raw materials and components."

- 3.10 Another objector has pointed out that on the basis of the machinery proposed to be imported by PIL for its proposed expansion, PIL would be in a position to produce much more than what it has applied for. It has been pointed out:
 - "....Philips (Holland) are one of the most leading manufacturers of lamp making machines in the world and their efficiency is very high and therefore, their units are capable of producing much more quantity of lamps as compared with other manufacturers in the world. This is also based on the fact that Philips have been producing about 22 million GLS lamps and 3.8 m to 4.0 million Fluorescent lamps in their factory at Kalwa, while they were licensed to manufacture only 8.0 million GLS lamps and 2.5 million Fluorescent Tubes. We feel that out of the value of the equipment asked for, they will be certainly in a position to manufacture more quantity i.e. about 20 to 22 million GLS lamps and 4 million Fluorescent Tubes...."

(viii) Exports from Present Production of PIL

- 3.11. Some of the Indian producers of GLS and FT lamps have stated that they have been successfully marketing these products in the Middle East, Far East and African countries through the State Trading Corporation. A few manufacturing companies have exported sizeable quantities of lamps. Bengal Electric Lamp Works has stated that it had exported to over one lakh pieces of FT lamps to various countries. It has also received and order for the export of about six lakhs pieces to Thailand. The competition faced by the exporters is reported to be severe in the various overseas markets. The global tenders are secured at competitive rates and have to be executed even at a loss.
- 3.12. It has been pointed out that PIL has an established brand image in the international market and enjoys definite advantage over other manufacturers in the exports of GLS and FT lamps. PIL's brand image in the international market is very strong as may be made out from the following example quoted by an objector:—

"As you are aware Philips (Parent Company in Holland) has established its brand image in the international market and, therefore, Philips India has definite advantage over the other manufacturers in India in the matter of export of Fluorescent Tube Lamps and GLS lamps. In the year 1973, quotations were submitted by Philips India Limited for export of 4 ft. COOL DAY LIGHT FLUORESCENT TUBE LAMPS to Czechoslovakia @ Rs. 3.50 per lamp, CIF, whereas the Bengal Electric Lamp Works Ltd., also submitted tender to the same buyer at Rs. 3.00 per lamp, CIF. Despite the fact that Bengal brand Fluorescent Tube was 0.50p. lower than Philips India's quotation, the entire export order was placed with Philips India

Limited. It would, therefore, be appreciated that wholly Indian Lamp Manufacturers are facing extreme difficulties in competing with Philips India even in the export market."*

- 3.13. The wholly Indian owned companies, it is said, would always be in a comparatively disadvantageous position while competing with the PIL in the export market. The Indian Lamp Factories Association has expressed fear that further expansion of PIL will have an adverse effect on wholly Indian owned manufacturing companies who are striving to make in-roads in the international market.
- 3.14. It has also been pointed out that PIL has been producing GLS & FT lamps far in excess of its licensed capacity during the past few years. In spite of this, its export performance has not been very impressive. It has been submitted that if PIL was serious about sizeable exports, it could have done so even from its present production.

(ix) Doubts about the Fulfilment of Export Commitment

- 3.15. Doubts have been expressed about the fulfilment of export commitment by PIL. It has been suggested that the prospects for exports of lamps are not very good in view of the fact that in most of the developed countries indigenous capacity for the manufacture of lamps is being established. It has also been pointed out that it would be very difficult for India to compete with multinational giants in the international market. It has been submitted that if PIL, for some reason or the other, is not able to export to the extent stipulated, the additional production arising out of the expansion proposal will create difficulties for other manufacturers.
 - 3.16. In this regard another objector's views are reproduced below:-

"The export angle in the proposal does not appear to be practical because like India, developing countries in the Middle East, Africa and East Asia are sensitive to import of consumer goods on a continuing basis. Real export potential to these countries lies in export of know-how, machinery, raw materials, components etc. We suggest that the Government must impose the condition that this plant be installed a fully segregated unit or in such a way that if Philips are unable to meet the full export obligation then this unit can be purchased and taken over completely by an Indian company or by the Government (Public Sector) at a price to be fixed by Government. In effect such condition should be imposed on multinationals that they are not able to circumbent permissions and concession to the detriment of the national economy."

(x) Lack of Adequate Demand

3.17 A number of existing large scale and small scale units have pointed out that the present installed capacity and the additional capacity that is likely to be installed by units who have been given industrial licences and letters of intent will be more than the projected demand for lamps in the next few years. Some of them have pointed out that on account of restricted growth in power generation and power cuts in different states, there is already a glut in the market, which has forced some of the existing units cut back their production. This has hit hard the small scale units in particular. They have also suggested that, in the current Five Year Plan, the power situation may not very much improve. Consequently, the growth in demand for lamps will continue to be subdued during the remaining years of the current Five Year Plan. The position of the small units will be further aggravated if PIL's expansion proposal is approved. One of the objectors has stated:—

"In a recent survey of the lamp industry, the following facts and figures have been published by the Indian Investment Centre, New Delhi, regarding Licensed Capacity, Installed Capacity, Actual Production and Demand Potential of GLS and Fluorescent Tube Lamps, which are as below:—

1. "GLS Lamps:

^{*}At the public hearing, when this example was mentioned the representative of PIL pointed out that the buyer's representatives had come to India, visited both the factories, taken samples and tested them in their home laboratory and only then decided to buy PIL's lamps, even at a higher price.

"The demand potential is expected to be around 200 million pcs. during the year 1978-79.

2. "Fluorescent Tube Lamps:

"It is evident from the above that the present all India installed capacity, both in the case of Fluorescent Tubes as well as GLS lamps is far in excess of not only the present market demand but also the demand envisaged during the next five years.

"On account of the power-shortage in almost all the States of India it should be anticipated that the demand for lamps as envisaged in the 5 year plan will be substantially lower. This will in turn give effect to surplus Lamp production on all India basis for which industrial licences have already been issued.

"In the light of the above in case permission is granted to Philips India Ltd. for further expansion, it will only add to further excess production. Unfortunately, the excess production by Philips will be totally at the cost of other small, medium and large scale manufacturers. This is because, while Philips will be able to market their products by virtue of their control and brand image over the market, some of the small and medium scale manufacturers who will be unable to face the competition from Philips will be forced to close down due to their inability to compete with Philips."

Objections from a Public Sector Undertaking

3.18. Hindustan Machine Tools, a Public Sector Undertaking, has objected to the proposal of PIL in the following words:

"Our proposal to manufacture High Speed GLS chains in collaboration with M/s. Tungsram of Hungary, who have 75 years of experience in lamp making, has been approved by the Govt. of India and D.G.T.D. authorities have recommended the proposal in order to prevent the drain of foreign exchange every year to the tune of Rs. 10.0 million. Manufacture of Tungsram's popular version of GLS chain having a rate of production of 2000 lamps per hour is to commence shortly at our Hyderabad Factory.

"Simultaneously, we have taken up steps to establish a lamp factory to produce GLS lamps and lamp components in collaboration with M/s. Tungsram.... Backed by the experience of M/s. Tungsram, we are confident that GLS lamps produced at our factory could conform to international quality standards. M/s. Tungsram export GLS lamps to advanced countries such as U.S.A. and France.

".....lamp components are planned to be produced over and above our own requirements for making GLS lamps and we have plan to sell them in existing and new lamp factories.

"Several of our State Industrial Development Corporations have already approached us to assist them in setting up lamp factories by supplying them GLS chains and also providing them 'Turn-key' services to establish lamp factories. A special cell is being established to offer expertise to all such prospective customers duly taking the technical assistance from TUNGSRAM and we are hopeful that the likely gap in demand of GLS lamps in the country can be fully met by the new units to be set up by State Industrial Development Corporations and with our own lamp factory. Backed by rick (rich) experience of M/s. TUNGSRAM, we are also confident that lamps produced on HMT made GLS chains could conform to Internatinal Standards as M/s. Tungsram themselves export sizeable quantity of their production to advanced countries such as U.S.A., France etc. by producing lamps on GLS chains as licensed to HMT."

[&]quot;The demand potential is expected to be around 18.00 million pcs. during the year 1978-79.

Development Commissioner, Small Scale Industries

3.19 The Development Commissioner, Small Scale Industries, has opposed the approval of the Applicant Company's expansion proposal. In a letter to the Commission dated 28/29 October, 1974, it has been submitted:—

"***we would specifically emphasise that we do not agree to the proposal of expansion of manufacturing activities in GLS Lamps by M/s. Philips India Ltd. unless the proposal is 100% export oriented. This 100% export oriented proposal should also be accepted with sufficient safeguard for distribution of raw materials to the indigenous manufacturers of GLS lamps in the Small Scale Sector. We are of the opinion that if M/s. Philips India are allowed to expand their capacities with only 60% export obligation the existing small scale units will be completely wiped out since they will not be able to stand in competition with this giant firm. As a matter of fact, the small units are already in a very bad shape even now in view of the competition from the Organised Sector units."

Suggestions

3.20 Some of the objectors have offered suggestions regarding modifications in the expansion in the proposal of PIL for the consideration of the Commission. The first suggestion is that the project of PIL should be 100% export oriented. Another objector has submitted:—

"Manufacture of all components to the tune of five times their (PIL) applied capacity, should be a pre-condition before the licence for manufacture of GLS and Fluorescent Tubes is granted. These components should be made available to other lamp manufacturers at reasonable prices and scheduled delivery."

- 3.21 About the export commitment of Philips, two suggestions have been made. One is that Phillips should be asked to export from its existing production in view of the fact that its production is far in excess of its licensed capacity. The second suggestion is that Phillips should be asked to set up a new factory in a 'free trade zone' to implement the expansion proposal.
- 3.22 A small scale unit has suggested that PIL should provide assistance to new units who hold letters of intent in the manufacture of GLS lamps. The submission in this regard is reproduced below:—
 - "...Phillips India Ltd., should rather be allowed to extend their collaboration to such of the units in India who have been recently granted letters of intent for the manufacure of GLS lamps and with whom Philips are prepared to collaborate and to invest partly. For such new Projects may come up, Phillips may also be allowed to help in marketing the products partly—even under Philips' brand, for a certain specified period, say 10 years or 5 years. This would help in establishing the new units and would avoid creating of monopolies. This would also help other new indigenous units."

Additional comments received at the Public Hearing

3.23 Mysore Lamp Works, one of the older large scale lamp manufacturers in the country, had earlier written to the Commission objecting to the proposal under consideration in the following words:

"The proposed expansion of GLS and Fluorescent units by Philips India Ltd. will adversely affect supply of lamp components to other lamp factories in India and thereby the other lamp manufacturers will be in difficulty unless the Government allow importation of components to other lamp factories.

"Due to power-shortage in the country the GLS and Fluorescent market is already facing problem of selling. As the power shortage is feared for few more years to come, the demand for lamps and tubes is not going to improve significantly. It is better if the existing capacity in the country is partly used for export purposes."

Just before the public hearing of the case, however, the Commission received a telegram from the Managing Director of Mysore Lamp Works. The text of which is produced below:—

"REF ENQUIRY ON PHILIPS EXPANSION (.) SEE NO HARM IN APPROVAL OF THEIR EXPANSION STOP TO IMPROVE AVAILABILITY OF COMPONENTS TO OTHER SMALL AND MEDIUM SIZE LAMP MANUFACTURERS LIKE

MLW PHILIPS SHOULD BE CONSIDERED FOR EXPANSION OF COMPONENTS MANUFACTURE SINCE OTHERS HAVE FAILED TO IMPLEMENT LICENCES GRANTED TO THEM STOP EXPORT BY PHILIPS MAY BRING GOOD NAME FOR INDIAN LAMP IN FOREIGN MARKETS AND OPEN EXPORT MARKETS FOR OTHER INDIAN MANUFACTURERS.

MANCHANDA MANAGING DIRECTOR MYSORE LAMP"

- 3.24 Toshiba Anand, another large scale manufacturer, had not objected to the proposal. Its representative stated at the public hearing that there was no reason for other manufacturers to feel apprehensive regarding the proposed expansion of PIL. He felt that PIL's expansion would be useful both in the international and in the domestic markets.
- 3.25 Other objectors representing large scale as well as small scale manufacturers reiterated the objections that they had raised in their written statements. A number of dealers in electric lamps participated in the public hearing. Most of them pointed out that the products of PIL were of high quality. PIL's methods of distribution were also fair and equitable. There was no discrimination in prices as among different regions and areas and there was no attempt to take advantage of temporary shortages. The result of all this was that trade found PIL's lamps as a better commodity to deal in and there was also consumer preference for these products. Most of them were dealing predominantly with lamps produced by PIL and were very satisfied. They, therefore, suggested that additional production by PIL should be encouraged, otherwise consumers will face shortage of preferred products. A few representatives of ancillary industries who supply PIL also appeared at the public hearing and supported the proposal. Their main point was that PIL provided good encouragement and assistance for ancillary industries to develop and operate in an efficient way. They therefore thought that PIL's expansion would help ancillary industry to develop further.

Comments of Government Officials

- 3.26 It may also be mentioned that certain comments were made by officials of the Ministry of Industrial Development and the DGTD at the public hearing. The main points made by them were as follows:—
 - (i) Regarding the estimates for demand, it appears that the Ministry of Industrial Development is still not sure that the demand estimate for GLS lamps may not have to be revised upwards. The present glut in the market for GLS lamps may be only temporary. Regarding the demand estimate for FT lamps, it needs to be revised upwards and the matter was being taken up with the Planning Commission.
 - (ii) The statements about the shortages of components are somewhat exaggerated. Government has been taking steps to encourage independent manufacture of components and also the supply of components to small scale units through the National Small Industries Corporation.
 - (iii) The additional capacity applied for by PIL is only 9 million GLS and 2.25 million FT lamps, 60% of which is going to be exported. Therefore, the effect of this expansion on supplies in the domestic market will not be much.

CHAPTER IV

ELECTRIC LAMPS INDUSTRY

Introduction

- 4.01 The manufacture of incandescent lamps commenced in the industrialised countries in the last quarter of the nineteenth century. Major technical innovations in the production technology of lamps took place in the first two decades of the current century, mainly in the U.S.A, the Netherlands and Germany. By the twenties of this century, the manufacture of GLS lamps had been technically stabilised. In India, until the early thirties, the requirements of GLS lamps were met by imports effected by foreign companies like Philips (India), General Electric (U.K.), and Cromptons. In 1934, Bengal Lamp Works Ltd., a wholly Indian company, made a pioneering effort in commencing indigenous production of GLS lamps without any foreign collaboration. Two more units came into existence in the later thirties—Mysore Lamp Works Ltd. established by the State Government of Mysore, and Electric Lamp Manufacturers (India) Ltd. (ELMI), established by a combination of foreign companies, in 1938. The rest of the units came up only after the Second World War—the Bharat Electric Industries Ltd. in 1947, Hind Lamps Ltd., in 1952, Philips India Limited in 1962 and Sylvania and Laxman Limited in 1965.
- 4.02 On account of limited availability of electricity, and its distribution being restricted to a small urban area, the growth of the lamp industry in India was rather tardy until India embark upon planned economic development in the early fifties. In 1950, the production of GLS and allied lamps was about 15 million; this increased rapidly in the next two decades. Not only did the output grow rapidly—from 15 million in 1950 to 41 million in 1959-60 and 104 million in 1970—but its composition also underwent a diversification so as to cover a wide range of light sources. ELMI was the first unit to commence the production of FT lamps in 1952. The production of FT lamps increased from 0.7 million in 1952 to 1.53 million in 1959-60, and 10.25 million in 1970. Relatively speaking, there was a faster growth in the production of FT lamps in the sixties, while the fifties had witnessed a more rapid growth in the production of GLS lamps. The growth in the industry since 1955-56, both in respect of GLS and FT lamps, may be seen from Table 30.

TABLE 30

Production of GLS lamps & FT lamps

(in million Nos)

Year	Production	
	Glass and other incandescent Filament Lamps	Fluorescen Tubes
1	2	3
1955-56	29.84	0.880
1956-57	33.148	1.243
19 57-5 8	30.476	0.986
1958-59	33.240	1.108
1959-60	41 · 395	1.527
1960-61	4 6.890	2.091
1961-62	58.540	3.140
1962-63	70.347	3.638
1963-64	70.108	3.439
1964-65	70 • 266	4.2 81
1965-66	67.885	4.360
1966-67	78.71	4.536

TABLE 30-Contd.

1	2	3
1967-68	74.479	5.616
1968-69	89.536	8.290
1969	90.37	10.25
1970	103.93	10.92
1971	111.06	11.26
1972	127.53	12.61
1973	127.73	11.56
1974	125.35	15.55

Note: Data given above do not cover small scale units.

Source: 1. Seminar Souvenir, Electric Lamp Component Manufacturers' Association of India January 28, 1975, New Delhi p.HS-33.

2. D.G.T.D.

Growth in Recent Years

4.03 In comparison to the rapid growth in the production of both GLS and FT lamps in the fifties and sixties, there has been a fall in the rate of growth during the past five years, particularly in FT lamps. Thus, between 1968-69 and 1973, the production of GLS lamps and FT lamps increased at an average annual growth rate of 8.98% and 8.30% respectively. Moreover, the year to year variation has been quite large. In GLS lamps, the production in 1973 as compared to 1972 witnessed an increase of only 4% while there was a fall of 8.33% in the case of FT lamps during the same period. The situation was reversed in 1974 when the production of GLS lamps declined by 2% while that of FT lamps increased by 34.5% In any case it appears that, from an era of rapid growth in the fifties and sixties, the industry is faced with moderate rate of growth now. The relevant data are summarised in Table 31.

TABLE 31

Average Annual Rate of Growth in Production of Lamps

(in percentage)

Period Average Annual Growth FT lamps GLS lamps 356.04 Ist Plan* 20.70 27.52 IInd Plan 11.43 21.70 IIIrd Plan 8.96 30.05 Interregnum 10.63 (1966-67-1968-69) IVth Plan† 8.98 8.30 31.52 1969 1.25 6.5415.00 1970‡ 3.11 1971 6.86 11.99 14.83 1972 8.33 1973 0.16 34.521974 1.86

Note: 1. The data given above does not cover small scale units.

Source: Computed on the basis data given in Table 30 and Seminar Souvenir, Electric Lamp and Components Manufacturers Associations' of India, Jan. 28, 1975, New Delhi.

20-8 M of LJ&CA/ND/79

^{*1955-56} over 1950

^{†1973} over 1968-69

^{‡1969} over 1968-69

ELMI—Hind and ILFA

- 4.04 An interesting feature in the history of the lamp industry in India has been the role played by foreign companies. While pioneering efforts in the growth of this industry were made by two Indian companies,* namely, Bengal Lamp Works Limited and Mysore Lamp Works Limited., The Electric Lamp Manufacturers India Pvt Ltd. (ELMI)† was formed in 1938 for the production of lamps by five foreign firms which were hitherto engaged in the import of lamps. The five companies were: General Electric Company Ltd., the Associated Electrical Industries (Rugby) Ltd., Crompton Parkinsons Ltd., Associated Electricals (Woolwich) Ltd., and the Midland Bank Executor and Trustee Co. Ltd., on behalf of Philips (Holland).‡ Its technical management was vested in Philips (Holland).
- 4.05 Another unit with the name of Radio Lamp Works Limited was registered in 1938 at Karachi in technical and financial collaboration with an Italian firm. The collaboration with the Italian firm came to be discontinued as a result of Italy becoming an enemy country. But the project was completed and production commenced in 1941 on the initiative of Indian technicians. The Production in glass shells was established at Shikohabad in 1943 in a unit named Kaycee Glass Works Limited. In 1947, as a result of partition, Radio Lamp Works was shifted to Shikohabad and Kaycee Glass Works was amalgamated with it. With various financial difficulties faced by the unit in 1952-53, a new company was formed for the development and operation of this unit. This company, named Hind Lamps Limited, was formed on the basis of a collaboration between Radio Lamp Works Limited (later called Bajaj Electricals Limited) and the group of companies which had formed the ELMI, both these groups contributing 50 per cent each of the equity capital of Hind Lamps Limited. The participants in ELMI held their half share of equity in Hind Lamps in the same proportion as their equity holdings in ELMI. Till recently the technical management of this unit was also entrusted to Philips (Holland), the Managing Director of ELMI also being the Managing Director of this unit. As already indicated, PIL itself undertook the production of electric lamps in India from 1962 as a result of its purchasing the lamp unit originally established by Osler Lamp Works.
- 4.06 The ELMI-Hind-PIL Group has dominated the lamp industry in the country for a long time. The units outside this Group formed an association known as Indian Lamp Factories Association. The respective position of the two groups has been explained by the Tariff Commission in its Report on the lamp industry (in 1963) as follows:—

"The two establishments in the ELMI-Hind group are self-contained units producing as many of main components as possible within their own organisation. They are also complementary to each other making the group independent as far as possible. They have a common percentage as they have been set up by foreign manufacturing agencies. The object of such financial collaboration seems to be produce within the country in a central manufacturing concern electric lamps which were previously imported by them from their respective manufacturing concerns for sale in the country. Their organisational pattern though ostensibly similar to that of ELMA, the corresponding group in the U.K. which was investigated by Monopolies Commission avoids the criticism of being a cartel of products, since the several selling organisations are the sole shareholders of the manufacturing company. Nevertheless, being the largest single producer at present they have not been able to avoid being described as occupying a virtual monopoly position in the industry. They manufacture identical products and their offtake is by their parent companies through their selling organisations within the country. The ELMI-Hind group has also undertaken the production of components required for the industry, such as shells and brass caps not only for its

^{*}It is difficult to say how far the prospect that the Government of India might give preference in it purchases to lamps manufactured in India influenced the hitherto lamp importing foreign companies, decision to set up a production unit in India. It appears that in 1935, Bengal Lamp Works got the approval of the Govt. of India against its annual rate contract and the Controller of Purchases declared that if Indian lamps were available Govt. will not purchase foreign lamps.

[†]Perhaps the formation of ELMI was influenced by the existence of the Electric Lamp Manufacturers' Association (ELMA) in the UK between 1933 and 1957. The ELMI shareholders were the leading lights of ELMA when the former was established. In 1951, ELMA's members were: Associated Electrical Industries, GEC, Philiphs, Crompton and BELL. Philiphs resigned one year before the association was dissolved in 1956, in the wake of the enactment of the Restrictive Trade Practices Act in 1956. A year later, this association was succeeded by the Electric Lamp Industry Council of which Philips also become a member. But this successor Organisation was not as powerful in its combined and concerted dealings and its predecessor. To what extent this Development in the UK made Philiphs to think in terms of establishing an independent unit in India is a moot point which needs some consideration. For some interesting details regarding cartelisation in the Electric Lamps Industry, see Appendices IV and V.

[‡]Since the ownership of some of these companies has changed in the meanwhile, the present four (as against the original five) shareholders of the Company are: Philips (Holland), GEC, Mazda and Crompton.

own requirements but also for sale to the units in the ILFA group. Components are accounted for and distributed separately through a factory sales department.

"The economic features of this organisation are mass production of identical products and segregated distribution by the selling organisations of the parent companies in the country. The underlying motive of such an arrangement is to sustain the brand name of their previously imported lamps for sale in the country. In other words, the goodwill established by the former importers is maintained by the sale of internally produced lamps under the old brand names. The process of segregation for this purpose is done even at the manufacturing stage when the old brand names are stamped on the products, which cannot otherwise be differentiated technically as they are identical in all respects. Philips India Ltd. manufactures lamps under its own name besides what is made by the ELMI-Hind group under its trade name. The offtake of the output is in proportion to the financial contribution of the parent companies. in the ELMI-Hind units. It seems apparent, looking at the financial results of the manufacturing units in the group and the considerable margin between factory selling prices and ultimate prices charged by distributors, that the greater profitability of the distribution line has generated the present organisational pattern.

"The ILFA group is an association of medium sized manufacturng units, which are financially independent of each other and separately market their products under individual trade names. None of them (except Bengal Lamps) was so far large enough to instal plants of a minimum economic size for the manufacture of components. Thus, they are not self-contained units and depend on the ELMI-Hind group for the supply of main components for GLS lamps such as shells and brass caps."*

4.07 With the coming in of new large scale units or because of the expansion of the existing ones, the ascendency of the ELMI-Hind-PIL Group has been reduced to some extent in the sixties. Bengal Lamp Works Ltd., Sylvania & Laxman Ltd., Mysore Lamp Works Ltd., and Toshiba Anand Lamps Ltd., though comparatively smaller in size than the ELMI-HIND-PIL Group have been able to make a significant dent in the Indian lamp market. The division of the industry into two broad groups has consequently lost some importance though the ELMI-Hind-PIL Group still has a dominant position in the industry, particularly in FT lamps. As an association, ILFA does not seem to have been active. Moreover, a new Association—Electric Lamp and Components Manufacturers' Association of India—has now been established. It is said to be a representative organisation of almost all the units connected with the manufacture of different types of lamps and components. Recently (January 1975) it held a Seminar in New Delhi in which all the important lamp manufacturers (including small scale units) participated.

Number of Units

- 4.08 The development of units in the electric lamp industry was governed under the Industries (Development and Regulation) Act from 1951 in accordance with the general industrial licensing policies. The grant of new licences and letters of intent was related to the estimate demand in different plan periods. Another consideration governing licensing was the regional distribution of the industry, so that proposals for location in States where the industry did not exist were given some preference. The optimum size of units had been indicated to be six million GLS lamps and it had been suggested that to make units viable, capacity for fluorescent lamps of one million and other items such as miniature lamps may also given to the same unit. In a review prepared by the DGTD on this industry in 1964, it was suggested that existing units may be permitted expansion at the rate of three million lamps per year, this being the capacity of one group of machines, subject to the condition that the total capacity of such a unit after expansion should not exceed 20 million lamps per year on single shift. There appears to have been a ban on the creation of new capacity for GLS lamps between 1965 and 1969. More recently, the policy appears to be to permit new large units to come up in different regions but subject to the installation of machinery which is being standardised on the basis of what is expected in the near future to be produced by Hindustan Machine Tools.
- 4.09 Regarding FT lamps, there appears to have been a ban on the creation of further capacity upto 1963. One consideration that appears to have influenced decisions on licensing in this as in other fields, specially in the sixties, appears to have been the possibility of the unit being able to arrange the foreign exchange for meeting the requirements for capital goods import.

^{*}Report on the Prices of Electrical Lamps and Flourescent Tube-Tariff Commission-Govt. of India, 1963.

When considering applications for capacity for FT lamps in 1964, for example, it appears to have been observed that a number of schemes approved for the manufacture of FT lamps had remained unimplemented because of difficulties regarding foreign exchange. With this experience, other applicants who were expected to face similar difficulties had also to be kept aside and units like PIL, which could arrange foreign exchange through loans from their parent company etc., had to be given preference. The Licensing Committee appears to have indicated in 1969 that applications from foreign concerns should not ordinarily be considered unless there were some compelling reasons and that new units should be encouraged.

- 4.10 There are at present 14 units registered with the DGTD for the manufacture of GLS lamps. Of these units, it has been reported by the DGTD, one has stopped production, one commenced production in 1973 and another two units commenced production in 1974. The unitwise data on licensed and installed capacity and annual production between 1969 and 1974 are given in Table 32.
- 4.11 So far as FT lamps are concerned, there are 12 units (See Table 33) registered with the DGTD. Among these units, one has stopped production for quite some time and three units have just gone into production. Thus, in 1974, out of 12 units, 9 are reported to have produced FT lamps. There is only one unit, namely, Shankar Electricals Ltd., Coimbatore, which is licensed to produce only FT lamps. All other FT lamp manufacturers are also producing/licensed to produce GLS lamps.

Small Scale Sector

- 4.12 Inspite of our best efforts, we have not been able to make a realistic assessment of the role played by the small scale units in the GLS lamp industry. There is no doubt that small scale units make a very big contribution in the manufacture of miniature lamps. It is also well known that none of the small scale units produces FT lamps. The main difficulty is about the role of this sector in the GLS lamps. In 1948, it had been reported that there were six small scale units. According to a survey conducted by the DGTD and the Office of the DC, SSI, in May, 1973, there were 150 small scale units, mostly located in and around Calcutta. The production ("maximum reported actual production") of the small scale units was estimated at 27 million GLS lamps though the survey team placed the installed capacity at 72.34 million GLS lamps. These figures have been projected for 150 units on the basis of a sample survey of 25 small scale units. According to All India Small Scale Lamp Manufacturers' Association in 1970 there were 54 small scale units. In 1973, their number increased to 172 units in and around Calcutta and in the country as a whole there were 325 units. But at the same time, the production of the small scale sector in 1973 has been put at 15.96 million GLS lamps of which only half (8.12 million) could be marketed ("cleared"). It is, therefore, difficult to estimate the real share of the small scale sector in the GLS lamp industry.
- 4.13 The mushroom growth of small scale units between 1970 and 1972 was perhaps due to the shortage of GLS lamps in the market since the production of large scale units fell short of the demand which was increasing at a fast rate. However, with substantial increases in the production of large scale units, and slower rate of growth in the demand for GLS lamps during the subsequent years, most of these small scale units seem to have faced serious difficulties. Their position in 1974 has probably worsened as even some of the large scale units found it difficult to market their entire production.
- 4.14 These units have been making lamps on the basis of semi-automatic and hand-operated machines. It is perhaps because of this outmoded technology that they have not been able to withstand competition from large scale units who use more modern and automatic machinery. Moreover, these units are entirely dependent on the large scale units for important raw materials and components. Such reliance on what in effect are their competitors is certainly an important handicap. The attempts made by the DC, SSI, and other agencies to ensure a more regular supply of quality components and raw materials to them have apparently not yet borne fruit. These units also are not in a position to ensure adequate quality control and thus face another handicap in the market. As a result of all these difficulties, the number of active small scale units has been rapidly declining.

The Problem of the Capacity-'Licensed' to Units

4.15 The confusion that exists in many industries about the licensed and installed capacity is by now well known. In the case of electrical lamp industry it appears that, till recently, the capacities were expressed on the assumption of a one shift operation for a period of 300 days in a year.

TABLE 32

f GLS Lamps
9
Production
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	Licensed	Installed			Ar	Annual Production in Million Numbers	roduct	ion in	Millior	Num	bers			•	,
Name of the Unit	Capacity	Capacity		1969 Qty. %age Share	1	1970 Oty. %age Share	1	1971 Qty %age Share	1972 Qty.%age Share	1972 ty.%age Share	1973 Qty. %age Share	1973 y. %age Share	1974 Qty. %age Share	ä	narks
	2	3		4	5			9		7		8	6		10
1. Philips India Ltd. Bombav	8.00	12.00*18.48		20.45 19	19.60 18	18.86 20.10		18.10	19.85 1	15.56 2	20.80 1	16.28	23.23 18	18.50	
2. Hind Lamps Ltd., Shikohabad	25.00**	25.50 19.30				18.59 22.03								22.60	
3. ELMI, Calcutta	27.00**	27.00 20	20.01 2	22.14 20	20.01 19	19.25 17	17.62 15	15.87 2	25.33	19.87 2	26.27	20.57	25.20 20	20.10	
4. Bengal Electric Lamp Works, Cal. & Bangalore	19.50**	15.00	5.80 (6.42 11	11.27 10	10.84 15	15.12 13	13.61	19.65	15.41	15.81	12.38	13.80 11	11.00	
5. Toshiba Anand Lamps Limited,	10 50	13.50* 4	4 90	4 65 G	6.40 6	9 91 9	6.63	5.97	7.63	5.98	6.14	4.81	6.27 5	5.00	
6. Mysore Lamp Works Ltd Bangalore	10.00			ĒS.	MAG.	3.5						5.85		5.50	
7. Sylvania & Laxman Ltd. New Delhi	13.50**			1.50	SSP	mil.							10.74 8	8.60	
8. Bharat Electrical Industries Ltd., Calcutta	9.40	9.40 6	6.28	100 200	6.02 5	5.79 6	6.30	5.67	6.33	4.96	5.14	4.02	1.21	1.00	
		(No snurs indicated in the licence)	cence)	cated											
9. Pradip Lamp Works, Patna	6.80	6.80 2	2.69	2.97 3	3.70 3	3.56 3	3.34 3	3.01	3.71	2.91	4.01	3.14	3.30 2	2.60	
10. Bijlee Products India (P) Ltd., Poona	6.37**	6.37	2.47	2.73 1	1.91	1.85 3	3.66	3.30	4.48	3.51	3.13	2.45	3.02 2	2.40	
11. E.C.E.C. Sonepat	9.00	* 00.6	:	:	:	:	:	:	:	:	0.21	0.16	3.38 2	$2.70_{}$,
														(Start Produ tion 1971)	(Started Produc- ion in 1971)
12. Power Cables P. Ltd., Nadiad .	7.50**	7.50	:	:		:	:	:	:	:	:	:	:	:	(Recently
														gon pro tion	gone into produc- tion

TABLE 32-Contd.

1	2	33		4			9		7		8	6	10
13. Ajay Engg. Works, Ambala . 4.50 4.50	4.50	4.50	:	:	:	:	:	:	:	:		:	Recently gone into production
14. Zenith Lamps & Electrical Ltd., Poona	9.00	00.9 00.9	0.02	90.0	69.0	99.0	0.01	0.05 0.06 0.69 0.66 0.01 Negligible	.: :	:	:	:	(Stopped Production)
TOTAL:	160.07	166.07	90.37	00.00	103.93	00.00	111.06 1	160.07 166.07 90.37 100.00 103.93 100.00 111.06 100.00 127.53 100.00 127.73 100.00 125.35 100.00	7.53 100.	00 127.7	3 100.00	125.35	100.00

*Capacity on maximum utilisation not yet recognised. **Maximum utilisation.

Abbreviations:

Source: -D.G.T.D.

ELMI: Electrical Lamp Manufacturers India Pvt. Ltd.

E.C.E.C. : Electric Construction & Equipment Corporation.

TABLE 33
Uniturise Licensed Capacity, Installed Capacity and Annual Production of FT lamps

(Quantity in million nos.)

	Licensed		A	Annual Production in Quantity in Million Nos.	tion in C	Juantity	in Million	Nos.	
Name of the Unit	Capacity (Annual)	y Capacity () (Annual)	1969	1970	1971		1972	1973	1974
			Qty. %age Share	%age Qty. %ag	%age Qty. Share	%age Qty.	ty. %age Share	e Qty. %age e Share	Oty. %age
1. Philips India Ltd. Bombay	1.50	2.25*	3.64 35.51	3.84 35.16	3.84	34.10	3.62 28.72	3.30 28.55	4.25 27.30
2. Hind Lamps Ltd. Shikohabad .	1.20	g 1.20	1.91 18.64	2.12 19.41	2.45	21.76	2.33 18.48	1.74 15.05	2.08 13.40
3. ELMI, Calcutta	3.00@	g 2.50	2.06 20.10	2.00 18.32	1.60	14.21	1.95 15.46	1.95 16.87	1.40 9.00
4. Bengal Electric Lamp Works, Cal.	0.90	1.35*			0.51	4.53	1.37 10.86	1.38 11.94	2.69 17.30
5. Toshiba Anand Lamps, Cochin	1.00	1.50*	1.30 12.68	1.32 12.09	0.86	7.64	1.16 9.20	0.79 6.83	0.94 6.10
6. Mysore Lamp Works, Bgr.	1.00	1.50*	NA	0.18 1.65	09.0	5.33 (0.51 4.04	0.68 5.88	1.07 6.90
7. Pradip Lamp Works, Patna	09.0	1.50	0.03 0.29	0.06 0.55	90.0	0.53 (0.10 0.79	0.08 0.69	0.10 0.60
8. Sylvania & Laxman, N. Delhi	1.20	1.80*	1.27 12.39	1.03 9.43	1.07	9.50	1.30 10.31	1.64 14.19	2.82 18.10
9. Shankar Electricals, C.B.R **	0.27@	a 0.27	:	0.25 2.29	0.27	2.40 (0.27 2.14	:	•
10. E.C.E.C. Sonepat	1.00	1.50	:	:	:	:	:	:	0.20 1.30
11. Power Cables (P) Ltd., Nadiad	1.00	1.50*	:	:	:	:	:	•	•
12. Zenith Lamps & Electricals, Mad.	1.20	1.80	0.04 0.39	0.12 1.10	:	:	:	:	;
Total	13.87		10.25 100.00	10.92 100.00	11.26 1	00.00	.61 100.0	18.67 10.25 100.00 10.92 100.00 11.26 100.00 12.61 100.00 11.56 100.00 15.	0 15.55 100.00
Foot-woods 41. 42.	7 25	**Transfer from	- 1	Small Scale N A Not available		SOURCE	D.G.T.D.	@Maximum Utilisation.	Utilisation.

*Capacity on maximum utilisation not yet recognised. **Transfer from Small Scale.

gnised. **Transfer from Small Scale, N.A. Not available. SOURCE: D.G.1.D. @Maximum

Moreover, the quota on imported materials and components was also allotted to units on the basis of capacity licensed on this basis. This is what the Tariff Commission in its Report (1963) had mentioned and it commented: "The policy seems to be to spread the foreign exchange earmarked evenly among all the producing units so that at least one shift operation may be possible for all of The Tariff Commission had pointed out that this was a waste of created capacity and further that it was obviously not only possible but necessary for units with high cost machinery to use such machinery on a double shift operation. It appears that, as a result of rethinking on this matter, import allotments began to be made on the basis of actual production. In 1969, the Licensing Committee also appears to have given thought to this matter, observing that there was confusion about the expression of licensed capacity in terms of shifts. It accepted the assessment of the DGTD that, while normally in engineering industries 1.8 times the capacity for one shift is taken as the capacity for two shifts, in the electrical lamp manufacturing industry the two shift capacity would work only to 1.5 times that of one shift capacity because of certain technical reasons. "In order to avoid any confusion and also to ensure that there was no scope for import of more capital machinery than was required, the Committee recommended that all the licensed capacity should be expressed in terms of two shifts. For this purpose, where letters of Intent are issued, the present approved capacity should be expressed on two shift basis and the capacity after expansion should also be similarly expressed. In other words, for the entire electric lamp manufacturing industry all licensed capacity should henceforth be expressed in terms of two shifts." this appears to have been done regarding the units which were licensed after 1969, there seems to be no consistent policy regarding the units licensed previously. The capacity for PIL continues to be expressed, as it was originally expressed, on the basis of a single shift operation. Out of the 14 existing GLS Lamp units which have been licensed, capacity has been indicated on the basis of maximum utilisation of plant and machinery (which is taken to amount to 1½ shifts) in respect of six units only.

- 4.16 Regarding the optimum size of capacity, the Tariff Commission (1963) had pointed out that, "the manufacturing equipment for the GLS lamps consists of production line or chain of machinery which is either fully or partially automatic. The average capacity for GLS lamps for such a line is estimated by the panel appointed by Development Council to be three million pieces per annum working on a single shift. The representatives of the producers at the public hearing enquiry agreed with the above chain capacity which may therefore be considered as the technical optimum. In the case of fluorescent tubes it was understood that the corresponding optimum would be about 1 to 1.5 million tubes per annum working on single shift." The Tariff Commission further pointed out that taking into account other, especially managerial, aspects of production units, multiple lines of plant may have some use but it recognised that there would be certain external limits to such expansion imposed by shortage of foreign exchange for acquiring imported raw materials and components, and by market limitations within the country. As mentioned earlier, it had been broadly decided by Government to permit units to have two chains to begin with, and it had also been suggested that the capacity of no unit should be permitted to grow beyond 20 million GLS lamps per year on a single shift basis. In the information supplied to the Commission, the DGTD has stated that at present a capacity of 7.5 million per annum for GLS lamps and 1.5 million for FT lamps on the basis of maximum utilisation of plant and machinery (1½ shifts) is considered as the minimum economic capacity. In respect of GLS lamps, this is on the basis of the chains proposed to be manufactured by Hindustan Machine tools, which are expected to have a capacity of about 2.8 million pieces on single shift. Two chains of this type are considered as a viable economic unit and 7.5 million pieces per annum is therefore, treated as a viable capacity. If another type of chain is permitted, w
- 4.17 Even the Tariff Commission had pointed out that there were a number of establishments, which the Commission called medium sized units, which were generally below the optimum size. These units do not have several chains of production. The machinery is not automatic and in some cases old and outdated. Such units continue to operate only through lower overheads. The production of output is lower and the quality is sometimes poor. It was also pointed out in that Report that there were a number of small scale units which report very large capacity but whose production is quite low, indicating that there was considerable underutilisation of capacity in them
- 4.18 Another aspect of the industry which had received some attention from the Tariff Commission was the development of integration in the industry to be secured by manufacturing components, at least the most important ones, within the same unit. We are dealing with this aspect separately later in this chapter.
- 4.19 The data given in Tables 32 and 33 indicate that the actual capacity of different units in the production of GLS lamps varies considerably, the smallest unit having the capacity of 4.5

TABLE 34

Unitwise Value of Amual Production of GLS Lamps

		Annual V	Annual Value of Production	ction			
Name of the Unit		1971		1972	1973		Re-
	Total value (Rs. Lakhs)	Average value Realised per Lamp (Rs.)	Total value (Rs. Lakhs)	Average value Realised per Lamp (Rs.)	Total value Average value (Rs. Lakhs) Realised per Lamp (Rs.)	otal value Average value (Rs. Lakhs) Realised per Lamp (Rs.)	
1. Philips India Ltd., Bombay	. 255.26	1.27	193.38	0.97	169.43	0.81	
2. Hind Lamps Ltd., Shikohabad	. 201.25	0.01	183.80	0.80	207.93	0.83	
3. ELMI, Calcutta	. 207.75	1.18	308.52	1.22	297.84	1.13	
4. Bengal Electric Lamp Works, Cal. & Bgr.	. 194.29	1.28	229.68	1.17	205.32	1.30	
5. Toshiba Anand Lamps Ltd. Cochin	. 81.75	1.23	96.81	1.27	77.83	1.27	
6. Mysore Lamp Works Ltd., Bangalore	. 118.45	1.51	124.64	1.55	109.32	1.46	
7. Sylvania & Laxman Ltd., New Delhi	. 130.13	1.55	129.13	1.37	205.04	1.51	
8. Bharat Electrical Industries Ltd., Calcutta	. 82.27	1.31	75.75	1.20	59.98	1.17	
9. Pradip Lamp Woks, Patna	. 57.79	1.73	89.12	2.40	75.33	1.88	
10. Bijlee Products India Pvt. Ltd., Poona	. 43.43	1.19	56.07	1.25	37.41	1.20	
11. Electric Construction & Equipment Corporation Sonepat.	ttion	:	:	:	2.81	Started 1.34 production in 1973,	Started oduction in 1973.
12. Power Cables Pvt. Ltd. Nadiad	:	:	:	:	:	R go proc	Recently gone into production
13. Ajay Engineering Works, Ambala.	:	:	:	:	:	:	-op-
14. Zenith Lamps & Electricals Ltd. Madras	0.05	0.20	:	:	:	S :	Stopped production

S ovrce:-D.G.T.D.

TABLE 35

Unitwise Value of Annual Production of FT Lamps

NT 7. 1. 2. 1. 2		Annus	Annual Value of Production	luction		:	
ivaine of the Unit		1971		1972	16	1973	Re-
	Total value (Rs. lakhs)	Average value Realised per Lamp (Rs.)	Total value (Rs. lakhs)	Average value Realised per Lamp (Rs.)	Total value (Rs. lakhs)	Total value Average value (Rs. lakhs) Realised per Lamp (Rs.)	Ì
1. Philips India Ltd., Bombay	325.28	8.47	237.98	6.57	138.07	4.18	
2. Hind Lamps Ltd., Shikohabad	. 109.59	4.47	83.63	3.59	74.17	4.26	
3. ELMI, Calcutta	. 72.67	4.54	91.70	4.70	84.94	4.36	
4. Bengal Electric Lamp Works Ltd., Calcutta	a . N.A.	6	73.77	5.38	76.54	5.55	
5. Toshiba Anand Lamps Ltd., Cochin	. 59.57	6.93	57.66	4.97	34.68	4.39	
6. Mysore Lamp Works Ltd., Bangalore	. 35.93	5.99	39.01	7.65	41.09	6.04	
7. Pradip Lamp Works Ltd., Patna	. 4.16	6.93	N.A.	:	6.29	7.86	
8. Sylvania & Laxman Ltd., New Delhi	. 90.30	8.44	92.65	7.13	103.85	6.33	
9. Bhaskar Electricals Ltd., CBR	. 19.22	7.12	19.14	7.09	:	fro	Fransferred from small scale.
10. E.C.E.C., Sonepat	:	•	•	:	:	:	
11. Power Cables (P) Ltd., Nadiad	:	:	:	:	:	:	
12. Zenith Lamp & Electricals Ltd., Madras	:	•	:	:	:	:	
Source: D.G.T.D. N.A. : 1	N.A.: Not Available.						

million GLS lamps and the largest one of 27 million GLS lamps per annum. There is less variation in the capacity in respect of FT lamps except in the case of one unit which is recently transferred to the DGTD list from the small scale sector. It may also be noted that the units with larger capacities are also units which are integrated in the sense that they produce (or are intending shortly to produce) some of the important components, especially glass shells.

- 4.20 It will be noticed that in the case of GLS lamps there are some rather peculiar differences between the figures of licensed capacity and installed capacity. These differences arise in many cases because of the figures for licensed capacity not having been revised on a uniform basis. As mentioned above, while the capacity figures for units like Hind Lamp, ELMI and Bengal have been revised on the basis of maximum utilisation (1½ shifts), they have not been so revised in cases like Toshiba Anand, Electric Construction and PIL. We find that similar variations exist between licensed and installed capacity regarding FT lamps also. Moreover the manner of calculating installed capacity even on so-called maximum utilisation basis is only on the basis of two shift operations with output only 50% higher than in a one shift operation. (It has been said that this is because time is usually lost as a result of a change in the type under production, and also wastage and breakages). The fact that ELMI as well as Hind and Sylvania Laxman have been able to produce outputs in GLS lamps almost equal to their licensed capacities suggests that potential but unused capacity must exist at least to a small extent in these units. In the case of PIL, it is obvious that figures of licensed capacity, or even installed capacity, as calculated on a so-called maximum utilisation basis have little relationship with the actual capacity of production existing in the plant. It needs to be pointed out that such figures are misleading because they provide an inadequate indication of the potentiality of production from a given unit. Moreover, in a country where capital is one of the scarce resources of production, it should be considered appropriate to think of capacity in a manner which assumes the maximum possible utilisation of capital equipment.
- 4.21 Tables 34 and 35 provide data about the value of output to the extent it is available with the DGTD, and from this the average value realised per GLS lamp and FT lamp has been calculated. These calculations however give results which are somewhat topsyturvy. In the case of PIL, for example, the unit value per GLS lamp has declined over the years, while such is not the case in all other units. Thus while it is well-known that the prices of both GLS lamps and FT lamps have gone up, these data show that the unit values realised have either remained stagnant or declined. It is also peculiar that unit value realised per lamp is lower in the case of PIL as compared to other lamp manufacturers, even though it is well-known that in the market the products of PIL command a premium. It has not been possible for us to go to the roots of this confusion. We hope the concerned authorities, and specially the DGTD, will look into this and see whether there is something wrong with the data that are collected, or there is some other explanation for this.

Utilisation of Capacity

4.22 On the basis of the data furnished by the DGTD and presented in Tables 32 and 33 we have worked out capacity utilisation for the years 1973 and 1974 in relation to the present installed capacity. The overall capacity utilisation (see Table 36) in the case of GLS lamps works out to about 75%. Excluding the three units which are not yet producing, the overall utilisation is seen to be 85%. There is much variation from unit to unit. The largest units (except Mysore Lamp Works) utilised the installed capacity to the extent of over 90% in GLS lamps. In the case of Mysore Lamp Works, the utilisation is at 69% in 1974. PIL is conspicuous among the larger units

TABLE 36
Unit-wise Capacity Utilisation in 1973 and 1974 (as related to installed capacity in percentage)

Sl.	Name of the Unit			Capac	ity	Utilisati	ion
No.			_	GLS La	mps	FT La	nps
	·		_	1973	1974	1973	1974
1		2		3	4	5	6
1. Pl	hilips India Limited			173.50	193.6	146.6	188.9
	ind Lamps Ltd	• • •		98.70	111.1	145.0	173.3
	lectric Lamp Mfrs. Inc	lia (Pvt.) Limited		97.2	93.3	78.0	56.0

TABLE 36—Contd.

_1	2				3	4	5	6
4.	Bengal Electric Lamp Works				105.4	92.0	102.2	199.3
5.	Toshiba Anand Lamps Ltd.	•			45.4	46.4	52.6	62.7
6.	Mysore Lamp Works Ltd.				74.7	68.7	45.6	71.3
7.	Sylvania & Laxman Ltd.				100.7	80.0	91.1	156.7
8.	Bharat Electrical Indus. Ltd				54.6	12.9	••	
9.	Pradip Lamp Works				58.9	48.5	14.10	6.7
10.	Bijlee Products India (Pvt.) Ltd.				49.1	47.4	••	•
11.	Electric Constn. & Equipment C	ompan	ıy		2.3	37.5	• • •	••
12.	Power Cables Pvt. Ltd.	-					•••	
13.	Ajay Engineering					• •	• • • • • • • • • • • • • • • • • • • •	• •
14.	Zenith Lamps & Electrics Ltd.				• •			••
15.	Shankar Electricals Ltd.				••		••	• •
	For the Industry	•		•	76.9	75.5	65.0	83.3

Source.—Computed on the basis of data given in Tables 32 & 33.

inasmuch as its capacity utilisation in relation to installed capacity was 173% in 1973 and 193% in 1974. Relatively speaking, the position of smaller as well as newer units is much less satisfactory.

4.23 In the case of FT lamps, the capacity utilisation as related to installed capacity was only 65% in 1973 but increased to 83% in 1974. Excluding the units which have yet to go into production utilisation is seen to be over 110%. In three units, namely, PIL, Hind lamps and Bengal Lamp Works, capacity utilisation was 147%, 145%, and 102% respectively in 1973 and 189%, 173% and 199% in 1974. The capacity utilisation at 91% (1973) and 157% (1974) in Sylvania and Laxman, and 78% (1973) and 56% (1974) in ELMI might also be termed as satisfactory. The position of the remaining units was very poor which might partly be attributed to installation of capacity recently. In all these comparisons the inadequate definition of installed capacity also plays an important role.

Dominance of Larger Units

4.24 In 1961, according to the Tariff Commission, the ELMI-Hind-PIL Group accounted for 61% of the total production of GLS and allied lamps and as much as 97% of the total production of FT lamps in the industry*. Since then the dominance of this Group including PIL has declined substantially (see Tables 32 and 33) in FT lamps and to a little extent in GLS lamps. Thus, in 1973 and in 1974, in the production of FT lamps, Hind-ELMI-PIL Group accounted for about 60% and 50% respectively. The corresponding figures in the case of GLS lamps were 56 and 61%. The share of the ELMI-Hind Group would have been much smaller but for the strides made by PIL since the mid-sixties as a separate production unit. Upto 1961, PIL did not produce any GLS or FT lamps on its own. If we take the three other largest units, namely, Bengal Lamps, Mysore Lamps and Sylvania and Laxman together with the ELMI-Hind-PIL Group, the dominance of these units over the industry becomes all the more apparent. These six units accounted for about 92% of the total production of FT lamps and 85% of GLS lamps in 1973 and 1974. This fact assumes a greater significance if we take into consideration their position in the installed capacity. These six units in 1974 accounted for 57% and 62% of the total installed capacity in FT lamps and GLS lamps respectively. In other words, though some element of competition has been introduced in this industry since 1961, large units dominance the industry. These six units account for an overwhelmingly large percentage of the total production. Since these six units are well-entrenched in the industry, during periods of slackness of demand, other units, particularly the new units, would find it difficult to obtain a share of the market.

4.25 In terms of production, Hind Lamps is the largest unit in GLS lamps followed by ELMI. In FT lamps, though ELMI is the largest unit in terms of installed capacity, PIL is ahead of its in actual production. The real position of PIL in the industry has however, to be assessed in terms

^{*}Report on the Prices of Electric Lamps & Fluorescent Tubes, op. cit.

of the overall supplies of lamps available to it for marketing. In addition to its own production, it gets 35.35% and 17.67% of the lamps produced by ELMI and Hind Lamps respectively. Taking these supplies together with its own production it accounted for the marketing of 27.5% in GLS lamps and 37.2% in FT lamps produced in 1973. The details are given in Table 37. It is discernible from the Table that during the past five years, PIL has lost some ground to other units, but even then it continues to be the largest single unit in this industry in terms of actual supplies to the market.

TABLE 37

Total Availability of GLS and FT Lamps with PIL

(Figures in million Nos).

Year					Produ	L's ections	Purch GLS 1	amps	Purcha FT 1 fro	amps	Total ability P		PIL's centage share	ge in
					GLS Ls.	FT Ls.	ELMI	HIND	ELM	HINE		FT Ls.	total ductio	
											179	Ls.	GLS Ls	FT Ls
1					2	3	4	5	6	7	8	9	10	11
1969					10 5	3.6	7.6	3.6	0.7	0.3	29.7	1.6	20.0	44.0
	•	•	•	•	18.5	6	7.0	TREETS	7			4.6	32.8	44.8
1970		•	•	•	19.6	3.8	7.5	3.3	0.7	0.3	30.4	4.8	29.2	44.(
1971			•		20.1	3.8	6.7	4.1	0.6	0.5	30.9	4.9	27.8	43.
1972					19.9	3.6	9.3	4.0	0.7	0.4	33.2	4.7	26.0	37.
1973					20.8	3.3	9.7	4.5	0.7	0.5	35.0	4.3	27.5	37.

Source:—1. Applicant Company. 2. D.G.T.D.

4.26 The leadership that PIL enjoys in the market for electric lamps is not merely in terms of the proportion that it occupies of the total sales in the Indian Market for electric lamps but also in terms of the market preference that its products enjoy. PIL does not use the ISI mark on its products. PIL's representatives explained this by pointing out that they observe quality specifications which, in their view, are more strict and they enjoy a certain worldwide reputation which gives them a market advantage. This is so is indicated by the fact that, in the market for electric lamps PIL's products enjoy a premium over competing products. As already mentioned, as against trade discount of 17½ per cent given by PIL, its competitors appear to find it necessary to give a much larger discount—above 25 per cent in the case of large producers and much higher in the case of small ones. This appears to be the case even of marketers like Crompton, Mazda and Bajaj, who obtain their supplies to some extent with PIL from a common source of production. Because of the market preferences that PIL's products enjoy and also because of it being the largest single seller of electric lamps, it appears to enjoy a position of price leadership. Other producers usually follow the lead given by it in respect of prices for electric lamps.

Recent Policy Regarding Future Development

4.27 The Government appears to have made a review of the industry late in 1973 for the purpose of licensing new capacities for the Fifth Plan period. One of the questions that was examined in this context was whether certain types of GLS lamps should be reserved for small scale industry. On examination it appears to have been decided that such reservation would not be desirable. This does not preclude provision of facilities for the more efficient small scale units to be sustained and to be further expanded. It does not appear however that this item is one where much reliance can be placed on the small scale sector for the satisfaction of consumer demand. This is specially so in view of the fact that quality control in a consumer item like this is of great importance and small scale units do not appear to be capable of ensuring this. On the other hand, there is obviously considerable scope for medium scale units having two chains of lamp making units. This

view is supported by Government and the approach now seems to be to licence units of a medium scale with capacities of 7.5 million pieces per annum of GLS lamps. With this approach, the Govt. is also thinking in terms of better regional distribution of the industry. As the demand for the final product is widely distributed and the skills required as well as raw materials have no special pull in terms of particular locations, this is an industry which can lend itself to regional dispersal. In industrial licencing, the Government has therefore been attempting to ensure a better regional dispersal of the industry. It is obvious that, if a number of medium scale units in this line of production are to come up, steps will have to be taken to ensure the supply of goods quality raw materials and components to these units. We are examining this problem further later in this Chapter. It is also obviously important that the units which are already dominant in the industry are not permitted to expand their share of the domestic market to such an extent as to make the entry of the new units difficult. This consideration will have to be kept in view in the examination of the proposal.

Letters of Intent

- 4.28 The Government has issued industrial license letters of intent to 19 parties with a total envisaged capacity of 130.90. million GLS lamps. The unit-wise details are given in Table-38.
- 4.29 Four of the units which have been issued industrial licences/letters of intent, are going to be set up in the Public Sector. The most important among them is the unit being set up at Hyderabad by Hindustan Machine Tools Limited (HMT). HMT has been issued an industrial licence for 20 million GLS lamps. This shows that it will be a fairly large sized unit. This unit has already started installing machinery for the manufacture of GLS chains which is part of HMT's overall project. The Company has submitted a four-year production programme to the Commission, according to which it will produce 14 million GLS lamps in 1976-77 and the output will be doubled in 1977-78. The expected production level in 1979-80 has been placed at 32 million GLS lamps. It may also be noted here that, as a part of this project, HMT is programming the production of glass shells, fluorescent tubes, filaments, etc.
- 4.30 The other public sector undertakings which intend to enter this line of production are: UP State Industrial Development Corporation, Kanpur, Tamil Nadu Development Corporation, Madras; and M.P. State Industrial Development Corporation, Bhopal. In this connection, HMT has informed the Commission: "Several of our State Industrial Development Corporations have already approached us to assist them in setting up lamp factories by supplying them GLS chains and also providing 'turn-key' services to establish lamp factories. A special Cell is being established to offer expertise to all such prospective customers duly taking the technical assistance from TUNGS-RAM and we are hopeful that the likely gap in demand of GLS lamps in the country can be fully met by the new units to be set up by the State Industrial Development Corporations and with our own Lamp Factory".
- 4.31 A few units have also been granted letters of intent for establishing capacity in FT lamps in addition to GLS lamps. These include three State Government Industrial Development Corporation and two private concerns.

TABLE 38

Parties who have received Industrial Licences/letters of intent for the manufacture of GLS Lamps

& Fluorescent Tube Lamps:

Sl. No.	Name of the Party	Date of issue of industrial licences/letter	Capacio Million		Remarks
		of intent	GLS Ls	FT Ls	_
1	2	3	4	5	6
1. C	A. Gls Lamps: lapital Lighting Electronics vt. Ltd., New Delhi	90 7 1070	4 5		
	·	28-7-1972	4.5	••	
2. L	amps & Lighting Ltd., alcutta	1-4-1973	7.5	••	Location in Rajasthan.

TABLE 38-Contd.

1	2	3	4	5	6
3.	The Calcutta Elec. Lamp Wks. Ltd., Calcutta	25-7-1972	4.2	••	Already producing in S.S. Sector.
4.	Gwalior Lamps & Electrical Ltd., New Delhi	5-8-1972	7.5		s.s. sector.
5.	Tube suppliers (Pvt.) Ltd., Madras	31-8-1956	2.7	••	
6.	Hindustan Machine Tools, Hyderabad	29-3-1974	20.0	• •	
7.	J.M.Deb, Gauhati	4-2-1974	7.5	••	
	U.P. Poorvanchal Industries		H -		
_	Ltd., Faizahad	4-2-1974	7.5	• •	Tantin in
9.	United Lamp Co., Calcutta	1-2-1974	7.5	• •	Location in Orissa.
0.	Geep Flash Light Industries Ltd., Allahabad	1-2-1974	7.5	• •	
1.	Auto Lamps Ltd., Delhi .	1-2-1974	7.5		•
	R.K. Maheshwari, Calcutta.	1-2-1974	7.5	••	Location in Bihar.
3.	Indo Hungarian Electricals India Ltd	6-11-1973	6.0	••	
	B. Fluorescent Tube Lamps	1	Gilly		
4.	Shanker Electrical Ltd., Coimbatore	20-7-73	0.27		
-	C. GLS Lamps and Fluoresco	ent Tube l	amps :		
5.	Bharat Electrical Industries Ltd., (Tamil Nadu)	N.A.	यमेव जयने4.5	1.2	
6.	Tamil Nadu Industrial Development Corporation, Madras	30-8-1974	7.5	0.6	
7.	U.P. State Industrial Development Corporation, Kanpur.	19-9-1973	7.5	1.5	
8.	Madhya Pradesh State Industries Corporation, Bhopal .	9-9-1965	6.0	1.0	
9.	Electro Technical Enterprises Jaipur	26-7-1968	8.0	1.0	
	Тотаь		130.9	6.02	

Raw materials and Components

4.32 Although an electric lamp appears to be a simple product, the process of manufacture is a complicated one.

A large number of raw materials and components are required for making GLS and FT lamps. (See Appendix VI). The more important components are: glass shells, glass tubing, lead glass, lead in wire, filaments, tungsten and melybdenum wire, caps and fluorescent powder. Consistency in the quality of each component has to be ensured to produce lamps of standard quality as lamps are produced in stages and at each stage there are possibilities of breakage and wastage. Considerable progress has been made in the last two decades towards attaining self-sufficiency in the requirements of the major components, the main exception being tungston coils. Though there are still a few raw materials and components which are imported, their value in the total cost of a

lamp is small; according to PIL this was Rs. 4/- per 100 GLS lamps and Rs. 32.00 per 100 FT lamps in 1970; it is still less now. The Applicant Company has further stated that it is making efforts in its laboratories to produce indigenously some of the items now imported. No such indication has been given by the other existing units. The Applicant Company has not indicated when it is likely to produce these additional components commercially.

- 4.33 An important feature of this industry all over the world is an integrated development in the sense that most of the large units attempt to produce the more important components themselves. On the other hand, the smaller units have to depend on other suppliers as the optimum sizes for the production of some components and, in some cases, the investments required, are quite large. Nonetheless, the position as it exists today in India is that there is still considerable interdependence among the large scale units regarding the supply of major components. The units which produce a number of components such beyond their captive requirements are in an advantageous position in relation to others who are dependent partly or entirely on others. PIL has been a late-comer in this industry but it has witnessed the fastest growth in the country's lamp industry since it establishment in 1962 at least partly because it is the largest producer of raw materials and components in the country.
- 4.34 The question regarding how the production of lamps and that of different components should be organised in relation to each other has been under discussion for a long time and different views have been adopted, and policies pursued, at different times. At one stage, the approach appears to have been to think in terms of a kind of co-operative organisation for the production of components required by different lamp manufacturers. When PIL applied in 1960 for the manufacture of tungston and molybdenum wires, there appears to have been an intention of forming a new independent company with financial participation by Philips (Holland) and major Indian lamp manufacturers. The former was to have half the equity, with other Indian producers and PIL contributing the difference. There appears to have been some difference of opinion between the Government and PIL about the capital structure of the proposed company, specially whether equity helding should be confined to lamp manufacturers alone, and therefore the proposal appears to have been abandoned. The result was that Indian lamp producers such as Bengal, Bajaj and Pradip who were willing to participate in such a venture could not so participate; the licence for producing these items was granted to PIL by itself in 1963, the only condition being that 50% of the new equity which was issued in that connection was to be offered to the Indian public.
- 4.35 There was a time when the ELMI-Hind-PIL Group had a virtual monopoly of the major components in this industry. This could not but affect the working and growth of other units. It was because of this situation that the Tariff Commission recommended the establishment of separate units for the manufacture of components. It was suggested:
 - "....The only feasible solution would be to expedite the setting up of separate units as already licensed for the manufacture of certain components for the industry. It was also suggested the public inquiry that such an arrangement may be desirable even in the present context as there would always be a conflict of interests when the lamp makers undertake the manufacture of components with a view to meet the demand of others in the industry. With the best of intentions it may be difficult for them either to regulate the supply of it or to offer at prices which would be accepted as reasonable by the purchasers. Consequently, it would be unwise to encourage them to install further plants for the manufacture of components. Instead, it would be feasible to encourage an independent concern which would come forward to set up a separate plant for the manufacture of shells, glass rods and tubes, caps and any other components that could be made by it. The existing lamp makers can still transfer to others any spill-over in their output of components after their own absorption. Particularly in a pattern of industry where small units for GLS lamps continue to exist, a centralised unit for the manufacture of components appears to be very essential*.
- 4.36 It appears that for some years after these recommendations were made by the Tariff Commission in 1963, there was an attempt to foster the development of independent component manufacturing units. This was supported not merely for avoiding the conflict of interest indicated by the Tariff Commission and to help the small and medium units which could not undertake the production of components themselves, but also because it was thought that the most economic production of components may require a scale of output, at least in certain components, which would be much larger than the captive requirements of an individual lamp manufacturing unit.

^{*}Report on the Prices of Electric Lamps and Fluorescent Tubes, op. cit. P 51.

If a lamp manufacturing unit was permitted to have a lamp manufacturing capacity on the basis of the most economic size of component production, this might push out other lamp manufacturing units from the industry. In various components, including glass shells and tubes, licences were therefore given to units not manufacturing lamps. The developments upto now however do not indicate that this policy has attained any marked success. As will be seen from the data given below, lamp caps is one area where an independent unit not manufacturing lamps has established a strong position for itself. One unit has recently come up in the production of tungsten wire for lamp filaments. A number of other Licences and Letters of Intent are pending implementation and it is not known how many of them would actually be established. In recent years, Govt. appears to have decided to permit lamp manufacturing units to set up capacities for the production of components for captive consumption and also for market sales, though occasionally restrictions have been put on market sales. It may also be noted that some applications by PIL for increasing the production of components of electric lamps have been recently rejected. The items concerned were bayonet caps (50 million pieces), glass shells (20 million pieces), tungsten filaments (10 million numbers) and molybdenum wire (3300 kgs.). The reasons given were mainly that adequate capacity has been licensed and therefore it was not necessary to establish any fruther capacity. The present position regarding certain components is discussed in succeeding paragraphs.

4.37 Lead and Wire.—There are at present five units which manufacture lead in wires. Of these, four are also manufacturing lamps and one does not produce lamps. Three of these units are reported to be producing this item only for captive consumption. ELMI which is the largest producer of lead in wire in the country caters to outside demand apart from meeting its own captive needs. Metal Lamp Caps India Pvt. Ltd. produces lead in wires only for sale to other units. It is the second largest unit both in terms of capacity and production. The overall production of lead in wire has increased from 135 million pieces in 1970 to 291 million in 1973. Five others have been issued letters of intent/industrial licences for an additional capacity of 524.5 million pieces. Two of the five units are purely ancillary units. The remaining four are either already producing lamps or hold letters of intent/industrial licence to produce them. The unit-wise details are given bebelow:—

TABLE 39

Approved capacity and Production of Lead in Wire

(Million Nos.)

		D. HERREY!	. 2		
	Lead in Wire	Ormalda	Produ	ıction	- Remarks
		Capacity	1970	1973	Remarks
Existing	Units				
(i)	ELMI, Calcutta	210.0	126.57	172.35	
(ii)	Metal Lamp Caps, Bangalore .	105.0		64.40	
(iii)	Toshiba Anand, Ernakulam .	• •	2.46	13.7	Only captive use.
(iv)	Sylvania & Laxman, New Delhi			37.4	Only captive use.
(v)	Miniature Lamp, Dehra Dun .	• •	6.56	3.42	Only captive use.
Expansion	n & New Letters of Intent				
(vi)	Sylvania & Laxman, New Delhi	58.0			Under implementa- tion.
(vii)	Bharat Electrical India Ltd., Calcutta	100.0			Do.
(viii)	RS Traders, Bombay .	215.0			Do.
	Bombay Engineering Company, Bombay	100.0			Expected to start production by middle o
					1975.

Source.—DGTD.

4.38 Filaments.—Tungsten filament or coil is the most important component required in the manufacture of lamps. According to a Note prepared by the DGTD:

"Tungsten wire manufacturing requires a highly advanced manufacturing technology. Tungsten wire quality depends upon proper refining of the ore known as Wolfram. The wire is blended with certain other chemicals like Thorium and Silica, etc. employing highly advanced manufacturing process. Most of the renowned manufacturers of Tungsten wire have their own secret formulae and the technology for processing of the 'Wolfram' and wire drawing. The quality of wire drawing has great bearing on the quality of the filament which in turn determines the quality of the lamp in terms of lumen output and life. Currently filaments are manufactured in the country using imported tungsten wire."

- 4.39 There are five stages involved in the manufacture of tungsten filaments, namely, (1) manufacture of Tungsten rods, (2) swaging of rods, (3) Thicker wires, (4) Thinner wires and (5) coiling or making filaments. The first two processes are not being undertaken in the country at present. No unit is programmed to manufacture tungsten rods. This is so in spite of the fact that initially the Govt.'s policy was to allow manufacture of tungsten wire in the country only from the Ore stage. PIL is the only unit which is at present producing thin wire from imported thick wire tungsten. It is now taking up one further—or rather backward—integration step of wire drawing activity by way of importing thick wire rods and swaging them to produce thick wire. Another unit, namely, Lamps Caps and Filaments, Nasik, is making thinner wire from imported thick tungsten wires. It is not, however, as yet converting these fine wires into coils or filaments. The unit is programmed to produce filaments as well as thick wires from tungsten rods.
- 4.40 There are at present three units manufacturing filaments. While two of them produce filaments only for captive consumption, the third one, namely PIL, caters to the needs of outside units as well apart from meeting its own requirements. Since 1970, the production of filamens has increased from 83 million pieces to 120 million in 1973 and 130 million in 1974. Eight units with an envisaged capacity of 524 million pieces have been approved and all of them, it is reported, are implementing their licences. Sylvania and Laxman, which is already producing filaments for captive consumption, is one of them and has received a licence for expansion. The relevant data are given below:—

TABLE 40
Approved capacity and Production of Filaments

(Million Nos.)

Existing Units	Capacity	P	roduction		Remarks
		1970	1973	1974	
1	2	3	4	5	6
(i) PIL, Bombay	60.0	79.60	87.66	92.0	
(ii) Toshiba Anand, Erna- kulam		1.77	21.10	27.5	Captive consumption only.
(iii) Sylvania & Laxman New Delhi		2.44	11.97	11.0	Do.
Expansion & New Licences					
(iv) Jai Electric Wire Corporation, Bangalore	30.0				Likely to start production in 1975.
(v) Jain Lamps & Allied Industries (P) Ltd. Kanpur	50.0				Industrial Licence.

TABLE 40-Contd.

1	2	3	4	5	6
(vi) Hindustan Electrical Mfg. Co., Calcutta .	120.0			Indu	ıstrial Lic e nce
(vii) West Bengal Indus- trial Dev. Corporation, Calcutta	104.0				Do.
(viii) Sylvania & Laxman, New Delhi	29.0				Expansion
(ix) HMT, Hyderabad .	115.4				
(x) Kalpana Industries, Indore .	40.0				
(xi) Pradip Lamp Works, Patna	36.0				

Source.—DGTD.

- 4.41 Lamp Caps.—Lamp Caps are at present being manufactured by five units. Among them the largest is the Metal Lamp Caps, Bangalore, which is an independent unit not manufacturing lamps. The combined capacity of these five units is 272 million caps. The production increased from 173 million pieces in 1972 to 216 million pieces in 1973.
- 4.42 Five more units have been given licences/Letters of Intent to enter this field and in addition, an existing unit intends to expand its capacity. Of these units, three will be producing caps for sales to outside units as they do not produce lamps. The combined licensed capacity of these six units comes to 392 million caps (See Table 41).

TABLE 41
Approved Capacity and Production of Lamp Caps

(Million Nos.)

Existing Companies		Capacity	Produc	ction	Remarks
		सन्दर्भव ज	1970	1973	
(i) ELMI, Calcutta .	•	17.5	10.5	12.34	, , , , , , , , , , , , , , , , , , ,
(ii) Metal Lamp Caps, Bangalore		120.0	54.4	98.88	
(iii) Hind Lamp, Shikohabad .		100.0	98.00	99.49	
(iv) Rao Insulating, Bangalore .		24.0	9.3	4.01	No. of the contract of the con
(v) Geep Flash Light, Allahabad	•*	10.0	1.0	0.92	
Expansion & New Licences	•	271.5	173.2	215.64	
(vi) Sylvania & Laxman, New Delh	i.	60.0			Under implementa-
(vii) G.J. Desai, Bombay	٠	72.5			Under implementa- tion likely to star by this end of '75
(viii) Ramesh Kumar, Delhi .		72.5			letter of Intent.
(ix) Geep Flash Light, Allahabad		66.0			Do.
(x) Internation Elec. Lamp & Co. Bangalore	ар.	71.0			De.
(xi) HMT, Hyderabad	•	*50.0			
	-	392.0*			

Source: DGTD.

4.43 Fluorescent Powder:—There are three units which produce fluorescent powder. All the three of them are also manufacturing FT lamps. PIL is the largest unit and its production in 1974 was seven times the combined production of the other two units, about 39% above its licensed capacity. The others are not utilising their capacity fully; there is thus scope for further enhancement in their production. One reason for this may be that these units are limited to production of fluorescent powder for captive consumption and not for sale. Some additional capacity is envisaged and a letter of intent has been issued. There is no likelihood of any shortage of fluorescent powder in the near future. The relevant data are given below:—

TABLE 42
Production of Fluorescent Powder

Existing Units	Unit	Capa-	F	roduction	1	Remarks
		city	1970	1973	1974	-
(i) PIL, Bombay	tons	80	62	54	111	
(ii) Sylvania & Laxman, New Delhi	,,			10	4	
(iii) Toshiba Anand, Erna- kulam	,,	• •	4	6	8	Captive consumption
		500	Cin.			only.

Source: DGTD.

- 4.44 Molybdenum Wires:—PIL being the only unit which produces Molybdenum wire, all other manufacturing units depend upon it for the supply of this important raw material. PIL has an annual installed capacity to produce 2400 kg. per annum. Its actual production increased from 2625 kgs. in 1970 to 3200 kgs. in 1974. No industrial licence or letter of intent has been issued to any other party. Some applications for additional capacity appear to be under consideration
- 4.45 Glass Shells:—Glass Shells is one of the most important components required for making lamps. There are at present seven units manufacturing glass shells in the country. All of them are producing lamps. Since the manufacture of shells involves a continuous process, the licenced and installed capacity are based on maximum utilisation of plant and machinery. The combined licensed capacity is 210.7 million pieces. The details are given in the Table 43.

TABLE 43

Licensed and Installed capacity and Production of Glass Shells

(Million Nos.)

	Name of Units	Licensed	Installed	F	roduction	
		capacity	capacity -	1972	1973	1974
1.	Bengal Electric Lamp Works, Cal	45.0	25.20	9.15	10.84	3.17*
2.	Bengal Electrical Lamp Works, Bangalore	24.0	24.00	19.73	13.48	12.45
3.	ELMI, Calcutta	51.2	51.20	37.92	46.73	35.85
4.	PIL, Bombay	20.0	20.00	34.88	28.78	29.43
5.	Sylvania & Laxman, New Delhi .	15.0	18.75	10.75	19.90	19.44@
6.	Toshiba Anand, Ernakulam	6.3	N.A.	15.31	9.18	7.30
		49.2	49.20	41.92	41.87	35 .86
7.	Hind Lamps Ltd., Shikohabad .	210.7	188.35@	@169.66	170.78	143.50

Note: *Based on financial year production.

[@] Estimated.

^{@@}For six units.

- 4.46 The installed capacity of Toshiba Anand is not known. If we assume the maximum production achieved by Toshiba Anand to indicate its installed capacity, the total installed capacity in the industry comes to about 200 million pieces. In the years 1972 and 1973, the actual production remained more or less the same at 170 million pieces. This means that the installed capacity was utilised to the extent of 85% in these two years. However, in 1974, the production declined by 27 million pieces which may be attributed to slack in demand for GLS lamps.
- 4.47 There is much variation in the unit-wise production during the three years. PIL has been producing glass shells much beyond its installed and licensed capacity; the other two units which are also doing the same are Sylvania and Laxman, and Toshiba Anand. The rest of the units have been producing glass shells below their licensed and installed capacity. The Calcutta Unit of Bengal Electric Lamp is the only unit which is producing glass shells far below its licensed capacity. Thus, against the licensed capacity of 45 million pieces and installed capacity of 25.2 million pieces, its actual production in 1974 was 3.17 million pieces.
- 4.48 There are four units (see table below) which have been given letters of intent/industrial licences for the manufacture of glass shells. Their combined capacity works out to 130 million pieces per annum. It has been reported by the DGTD that three of these four units (with a combined capacity of 100 million pieces) are likely to go into production. The new licences that are issued by the Government for the manufacture of lamps incorporate a condition that the units will produce glass shells as well.

TABLE 44

Parties to whom letters of intent/industrial licences have been issued

(Million Nos.) S. No. Name of the party Capacity Present Position approved The party has not made any 1. Shri M. C. Shah, New Delhi 30.00 progress. 2. Lamp & Glass Components, New Delhi . 30.00 C.G. application was approved in August, 1974. 3. Sylvania & Laxman Ltd., New Delhi 15.00 The Project is likely to be implemented soon. 4. HMT, Hyderabad 55.00 130.00

Source: DGTD

4.49 Glass Tubing:— There are at present six units which are producing glass tubing. These are the units which also manufacture glass shells. The only difference is that Bengal Electric Lamp Works is producing glass tubing only at the Bangalore factory, and not at the Calcutta one. PIL is the largest unit, accounting for 40% of the total capacity and half of the total production. The combined licenced capacity of the industry is 8,886 metric tonnes. The installed capacity more or less corresponds with the licenced capacity. In 1972, the total production of glass tubing was nearly 8,000 metric tonnes. However, during the past two years, there has been a decline in the total production, probably due to inadequate demand for FT lamps. Bengal Lamp is the only unit in whose case actual production is much less than the licensed/installed capacity which may be attributed to the fact that its Bangalore unit has been established recently. It has been reported by the DGTD that HMT has been licensed to produce 1300 metric tonnes of glass tubing and rods.

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TABLE 45

Licensed and Installed Capacity and Production of Glass Tubing

(Metric Tonnes)

Sl.	Name of the Unit		Licensed	Installed	P	roduction	-
No.			capacity	capacity —	1972	1973	1974
1.	Bengal Electric Lamp Works, Ban	ga-					
	lore	٠.	2400.0	2400.0	265.5	466.5	787.0
2.	ELMI, Galcutta		792.0	792.0	525.0	662.0	623.0
3.	PIL, Calcutta		3600.0	3600.0	3179.0	3223.0	3206.0
4.	Sylvania & Laxman, New Delhi	•	930.0	1163.0	799.0	1130.0	507.0
5.	Toshiba Anand, Ernakulam .		360.0	N.A.	525.0*	459.0*	180.0*
6.	Hind Lamps Ltd., Shikohabad		804.0	804.0	700.0	576.0	830.0
			8886.0	8759.0**	7993.5	6516.5	6133.0

^{*}Based on financial year production. Figures in brackets relate to number of units.

Source: DGTD and PIL

4.50 Overall position about Components:— Among the lamp manufacturing units which also produce raw materials and parts, PIL, ELMI and Hind are the most important. While in Molybdenum wire, PIL is the only manufacturers in the country, in fluorescent powder it is the only unit which is at present permitted to sell to outside units apart from meeting its own requirements. In the case of filaments also, PIL is the only lamp making unit which at present supplies them to other units. In lamp caps, ELMI and Hind are the only two lamp manufacturing units which supply lamp caps to outside units. ELMI is the only lamp making unit which supplies lead in wire to other lamp manufacturing units.

4.51 From the information given above, it is apparent that, except in a few items such as lamp caps and filaments, not much headway is being made by independent producers who are not themselves in the business of manufacturing lamps. This question was raised by us at the public hearing. Representatives of PIL pointed out that their view was that the production of components by those in the lamp manufacturing industry had a distinct advantage in that they would have not only continuous interest in improving the quality of the components but they would also be in a position to effectively attempt modifications and changes specially those which were related to import savings through using indigenous instead of imported materials and components. This is certainly an important consideration. The organisation of lamp manufacturing industry all over the world also suggests that the production of components is closely integrated with the production of lamps, specially in the large lamp manufacturing units. Small manufacturers always suffer in such a situation because of their depedence upon large competitors for the supply of important components. Specially if an oligopolistic policy is pursued regarding components, the smaller manufacturers may be handicapped both in respect of prices and the regularity of supply of components. That is why the Government has been toying with the idea of encouraging independent production of components. It is however doubtful, whether, with the production of major components. ponents such as Glass Shells, Tubes, Filaments etc., already fully established by the major lamp manufacturing units, an independent manufacturer of such items will only have the smaller and medium lamp manufacturing units as his customers. This would provide him a less attractive and more unstable market as these manufcaturers are also those who find it difficult to market their lamps in competition with large, integrated and well-established lamp manufacturers. The possibility of the production of important components being established in independent units on a large and economical scale cannot therefore be considered to be very bright. This is even more, so in respect of components such as glass shells and tubes which require large investments, or tungsten wire and

^{**}For five units.

filaments which involve complex technology and a long gestation period. In this situation, one method by which the supply of components to small and medium units at appropriate prices and with proper regularity can be ensured would be to sanction sufficient capacities for the production of components to lamp manufacturing as well as other units which are already well-established in this line, but limit the former's lamp manufacturing capacity itself sufficiently below their components producing capacity so as to ensure a sufficient degree of competition among them in the components market. At one stage, the Government had spoken about the prices of components produced by large lamp manufacturers and the supply of components to smaller units being regulated by Government. This has remained a pious wish. The question was discussed in relation to small scale units at the public hearing. It appears that PIL has offered to make supplies of components available to small scale units through an agency designated by the DCSSI, but the latter authority has not yet been able to organise such distribution. It is however apparent that it will be too much to expect that Government will be able to undertake the responsibility of such distribution for all the medium scale units which have been given letters of intent or licences, or which already exist. A much better approach would be to ensure sufficient competition in the production and supply components and at the same time limit the capacity of the larger units in the production of the final item, namely, electric lamp. Limiting capacity obviously does not merely mean capacity as laid down on paper but actual capacity in terms of the potential capability of the machinery that is permitted to be installed. We shall discuss this problem with reference to the present proposal in detail in the next Chapter.

Technical Know-How

- 4.52 Among the major units, Bengal Lamp Works is the only unit which has never had any foreign financial or technical collaboration either for GLS or for FT lamps. The rest of them had or having foreign collaboration from internationally well known companies. In the case of PIL, technical assistance is even now generally available from its parent company Philips, (Holland) as it has a large financial stake in the Indian Company. Hind Lamps and ELMI had a technical collaboration arrangement with Philips (Holland) but it has not been renewed after it expired. ELMI is, however, still being managed by Philips (Holland). Mysore Lamp Works Limited had technical collaboration with General Electric but in this case also, after the expiry of the agreement it was not renewed. Sylvania & Laxman, Toshiba Anand Lamps, Electric Construction & Equipment Company and Power Cables are the four existing large scale units in whose case foreign technical collaboration is still in vogue. The first one has a collaboration arrangement with Sylvania, of the USA, the second one with Toshiba of Japan, and the last two with Tungsram of Hungary. The remaining units registered with DGTD are independent of foreign know-how.
- 4.53 There are five units including PIL which continue to have foreign collaboration arrangements for FT lamps even now. There are, however, two units namely, Mysore Lamp Works and Hind Lamps, in whose case the technical collaboration has expired.
- 4.54 According to the DGTD, no financial collaboration is now permitted for the manufacture of GLS and FT lamps while technical collaboration with royalty payment may be allowed for FT lamps. This shows that the Government thinks that in the case of GLS lamps the country has reached a stage when there is no need for imported know-how. A new development that is taking shape is the provision of technical and/or financial collaboration by existing India large scale units to new units. HMT has also informed the Commission that it is likely to enter into collaboration arrangement in association with Tungsram with some State Industrial Development Corporations.
- 4.55 However, for acquiring self-reliance in the know-how for GLS and fluorescent lamps, an important requirement is the availability of chains indegenously. Generally speaking, the giant multinational lamp manufacturing units are also the producers of chains and other related equipment. They do not normally sell these machines to units with whom they do not have financial or technical collaboration. In this regard some change seems to have come about as a result of the policy pursued by Tungsram of Hungary, which has effered technical collaboration to three units including HMT, which latter in turn may share the know-how with other public sector units. However, what is more important to note is the programme of HMT in collaboration with Tungsram of Hungary to produce chains for the manufacture of GLS lamps in this country. HMT has reported that it will produce three chains in 1976, five in 1977 and eight in 1978 and subsequent years. This step will further accelerate the Indianisation of technical know-how in the manufacture of GLS lamps. However, it has to be seen whether the chains to be produced by HMT will come up to the technical standards attained by GE of USA of Philips (Holland). As at present, there appears to be no proposal for the manufacture of machinery for the production of FT lamps.

4.56 At the Public Hearing, we inquired from the representatives of PIL whether any o the units which had been granted licences/letter of intent for the production of electric lamps had approached PIL for technical assistance or collaboration. Without specifying names, it was said that suggestions for PIL joining with some of the State Development Corporations through Joint Sector units had been made but nothing very concret had emerged as yet. It is possible that PIL has not upto now given a very positive response to such suggestions, as it may be afraid that its own competitive ability might be aversely affected with such participation in new ventures. As long as PIL entertains hopes of being able to maintain its present predominant market position in the Indian market for electric lamps, it is understandable that it would be reluctant to allow its market image to be diluted by providing technical collaboration to units which are not directly or substantially under its control and technical management. On the other hand, if it finds that Government will not favour the present position of PIL's predominance to continue, and that no steps which will help maintain such a position will be permitted, it is possible that PIL may find it worthwhile to respond positively to proposals for technical assistance and collaboration with other Indian concerns coming up in this industry. To some extent, Sylvania and Laxman are already proceeding along this line. HMT, together with Tungsram of Hungary are also proposing to pursue such a policy. It may be useful if PIL could also be induced to adopt a similar approach, so that the future development of the industry would take place through the coming into existence of independent but economical units, spread out in different parts, of the country, catering to different regional markets, and based on two or three initially different sources of technology.



CHAPTER V

ANALYSIS OF THE PROPOSAL

The Implications of the Proposal

5.01 According to PIL's application under the MRTP Act, it wants to expand its existing capacity in the field of GLS lamps by 9 million and in the field of FT lamps by 2.25 million, on what has been called the "maximum utilisation basis". It has offered to make this proposal export-oriented by undertaking to export 60 per cent of the output from the proposed expansion for a period of five years.

Potential Additional Output

- 5.02 As we have already noted, PIL has at present a licensed capacity of 8 million GLS lamps and 1.5 million FT lamps which, if calculated on the normal 1½ shift basis assumed by the DGTD for defining capacity in the industry, would amount to 12 million GLS lamps and 2.25 million FT lamps. As we have explained earlier, PIL through various measures has been able to attain an annual output level of over 23 million GLS lamps and over 4 million FT lamps on the basis of the capacity which has been installed upto now. For producing this output, it has three GLS lamp chains which are fairly modern and well maintained, and one machine for FT lamps. By using these, it has been able to attain the output mentioned earlier. We have also noted that PIL itself has laid stress on the point that some improvement in the output from the existing machines is still possible, though at the public hearing it was stated on PIL's behalf that any substantial increase in output from the present machinery appears to be unlikely. We have pointed out that if the utilisation of GLS chains upto now, with the two chains operating on a two shift basis and one chain on one shift basis, is taken into account, it will not be impossible for PIL by utilising all the chains on a double shift basis to increase its output even from the present machinery to about 27 million GLS lamps and about 4.5 million FT lamps.
- 5.03 For implementing the expansion proposal, PIL has proposed the installation of two GLS chains, one broadly of the type already installed though with a sligthly higher speed (2400 pieces per hour technical speed as against 2,200 pieces per hour of the present machines), and the other a new type of chain specially capable of manufacturing a whole range of new types of lamps which are required for the export market. This does not mean, it is presumed, that ordinary GLS lamps cannot be produced on this chain, but that it will also be capable of efficiently producing new types of lamps. Even though the application has spoken about the additional capacity being of the order of nine million GLS lamps and 2.25 million FT lamps on maximum utilisation basis, it has been made clear that the machines would be capable of producing much more. PIL expects to obtain an output of about 16 million GLS lamps and 3.5 million FT lamps in the third year of the implementation of the project, and to continue production at the same level upto the end of the fifth year of the expansion period. When asked whether, in view of the excellent use to which PIL has been able to put its existing machinery, it would not be possible to produce a much larger output from the additional machinery, it was pointed out that this would be difficult; "since the bulk of production would be vacuum lamps, the speed itself would have to be substantially lower. When computing the production programme on these two chains and with the type of changeovers that are necessary to fulfil the export market demand, it is our anticipation that with these two chains we are unlikely to exceed a total output of 16 million per year and we will only be able to reach this under the most favourable circumstances." It was, therefore, pointed out on behalf of the applicant company that the possibility of the two additional chains being utilised to produce an output of about 23 million GLS lamps should be discounted. In its answer to the Commission's questions, PIL has stated that the technical capacity of the new chains would be about 2400 GLS lamps per hour gross. On at a two shift basis one chain should be able to produce for 300 working days 11.52 million GLS lamps. It was on this basis that it had been suggested that the two chains will have a machine capacity to produce 23.04 million GLS lamps per annum. Allowance of course will have to be made for wastage and there might be some loss of time because it may not be possible to concentrate entirely on one or two ranges of lamps, as has been possible in the existing machines. At the same time, unless the existing arrangements under which PIL obtains supplies of certain ranges of lamps from ELMI and Hind are discontinued due to some reason, the possibility of each chain having a long and uninterrupted concentration on particular products would not only exist but to some extent even be strengthened with the addition of two more chains. All

in all, it does not appear over optimistic to assume that the two new GLS lamp chains would make it possible for PIL to produce at least 20 million GLS lamps in addition to the output of the existing chains. Regarding FT lamps, the existing machine has already been shown to be capable of producing about 4.3 million FT lamps per annum, and the possibility of further increase in production has been mentioned. PIL has stated that the existing machine has had to be worked overtime 1974 for satisfying certain urgent export orders, and it may not be possible to maintain such a rate of production continuously. PIL would thus like to think of 4 million FT lamps per annum as the normal potential output of the present machine. It has also been pointed out that, for the purpose of export, FT lamps in different colour executions and of different ranges will have to be manufactured to satisfy maket needs abroad. This would reduce the levels of output reached. It has, therefore, been stated by PIL that on the new fluorescent lamps machine, the maximum possible output would be 3.5 million per annum on a two shift basis. These are important points. At the same time, it has to be noted that PIL has indicated that the new FT machine will have a technical speed of 1,000 tubes per hour as compared to the speed of 900 tubes per hour of the existing machine. Even if we assume that the normal capability of the existing FT machine should be taken to be 4 million FT lamps per year, it does not seem inappropriate to place the potential capacity of the proposed machine at 4.8 million FT lamps gross per annum on a two shift basis and, allowing for changes in sizes, wastages etc., at about 4.5 million FT lamps per year. In the case of FT lamps also, not all the sizes required for export may have to be produced by PIL as it will continue to obtain some sizes from ELMI and Hind. With two machines instead of one in its own factory, it will be in a better position to ensure that each machine has a longer run on the same type of product. It does not, therefore, seem unreasonable to assume that, with the additional machinery than PIL proposes to instal, it will be possible for it to add to its existing output by 20 million GLS lamps and 4.5 million FT lamps per year.

5.04 The representatives of PIL apparently felt that the Commission had some antipathy to their being able to produce a larger output from existing machinery. At the public hearing, PIL's representatives therefore went to the extent of holding out an assurance in the following terms:

"If it would satisfy either the Commission or the Government we are willing to undertake here and now that our maximum output from these chains under the proposed expansion will not exceed 16 million for GLS and 3.5 million for fluorescent lamps per year."

- 5.05 This assurance, we must point out, is quite unnecessary. It is true that a number of authorities in the country have looked askance at certain industrial undertakings having been able to produce outputs vastly larger than the capacity licensed to them. Such doubts have arisen mainly because the capacity licensed to an undertaking was supposed to limit the potential capability of the machinery that would be installed, and this was thought to be important when the plant had to be imported and scarce foreign exchange resources allotted for that purpose. Considerations of an economically optimum size and also be prevention of oligopolistic situations also influenced decisions about licensing capacities. That is why questions have been raised when it was observed that certain units were able to produce far more—sometimes in multiples—as compared to their licensed capacities, as all these original considerations behind licensing got defeated as a result.
- 5.06 It has however been realised much more clearly now than earlier that there have been many inadequacies about the concept of capacity. Even the shift basis remained unclear, as in the case of electric lamps. Moreover, if certain assumptions about productive machine time were made which were not in accordance with the reality, especially in the case of a well managed unit where preventive maintenance was properly organised, the actual capacity is bound to be much larger than what it was assumed to be. There is also the question of the basic technical capability of the machinery initially installed, and the periodic replacement of its important parts, may be to some extent by more up-to-date and better components, as the history of PIL's Kalwa plant for electric lamps which we traced earlier will indicate. The fact that PIL was permitted to import capital goods for replacing a substantial part of one of its chains in 1971, by which time it was already producing far more than its so called capacity and when its present application had already been under Government's consideration for about two years, does suggest that PIL was able to obtain a certain special advantage which has also contributed to its ability to produce more than in licensed capacity. Its own efficiency, better production arrangements, the use of higher quality raw materials and components and, because of its arrangements with ELMI and Hind, the ability to concentrate on a few items of production have all added to its ability to produce an output much larger than its licensed capacity. We mention this past history mainly to drew lessons for the future and incidentally also to indicate how care has to be taken regarding an influential unit, lest with one concession after another, it is able to strengthen its position vis-a-vis its competitors

Lessons for the future have to be drawn from this history. The fact that PIL has been able to produce such a manifold output as compared to its licensed capacity, and that this extra actual capacity has not as yet been regularised is an aspect which has also to be kept in view. But this is not to say that once certain machines are installed they should not be utilised to produce the best and the most of the output that they are capable of producing. The Commission does not therefore want any assurance from PIL about its not producing an output larger than 16 million GLS lamps and 3.5 million FT lamps. The Commission realises that the best estimate of the Applicant Company is that it may not be able to produce more than this in the initial five year period. That however is no reason why it should not be able to increase the output from the additional machinery at a later stage. It would not therefore be wrong to conclude that, in case the proposed machinery is installed, it will be possible for PIL to add an output of about 20 million GLS lamps and 4.5 million FT lamps to the output obtained from its present machinery. The implication of this is that the potential of the present machinery being 27 million GLS lamps and 4 million FT lamps, after carrying out the expansion, PIL would be in a position to produce 47 million GLS lamps and 8.5 million FT lamps per year.

Domestic and Export Sales

- 5.07 As regards the quantity to be exported as a result of the present proposal the Applicant Company has now stated that "our associates, viz. Philips (Holland), have agreed to underwrite 60% of the production of lamps arising out of the proposed expansion for a period of five years," for export purposes. PIL has also indicated the quantities that would be exported during the initial five year period of the expansion project, on the assumption that it would reach an output of 16 million GLS and 3.5 million FT lamps in the third year and that it would maintain production at the level upto the fifth year. What is a little unclear about this proposal even now is what actually is mean by the commitment to export 60% of the production "arising out of the proposed expansion". Surely it cannot meant that the new machinery that would be installed for the expansion would be treated as if in a watertight compartment separated from the existing machinery, and that only output arising out of that new machinery would be exported: In order to achieve such diversity of production as will be required to satisfy export demand, and at the same time to ensure the best utilisation of all machinery—existing as well as new—the machinery would be geared efficiently for the production of all the required products, and the products arising out of the whole plant will be available for export as well as for the domestic market. If what is meant is that, in quantitative terms, 60% of the quantity of output that would be actually produced from the new machinery would be exported, unduly detailed monitoring would have to be organised in order to decide what exactly was the output in terms of quantities of the new machines as separate from the existing machines. If this is to be avoided—and it would be quite difficult to have such monitoring—it will have to be assumed that the output from the new machines will not exceed what is propose by the Applicant Company and it will have to be held to the quantitative export obligation in terms of what it has indicated. We do not know whether this is what the Applicant Company intends. Such difficulties are unavoidable in view of the difficulty of defining what exactly is the capability of each machine, and also the dubious distinction between production from the existing machines and production from the new machines. It would be much better if the export obligation can be spelt out in more unambiguous terms than on the basis of 60% of the production "arising out of the proposed expansion".
- 5.08 Just as the export obligation on ketproposed terms remains quantitatively somewhat vague, what the impact on the domestic march of the proposed expansion would be would also remain vague. One reason for this is, as mentioned above, the possibility that the additional machinery would be capable of producting much more than what has been indicated by the Applicant Company. Moreover, the existing machinery also has some still unused potentiality for expanding output. It may not always be possible strictly to examine which output and how much output was produced by different machines and this cannot but give rise to suspicion in the minds of other domestic manufacturers that PIL would be able to market much larger quantities as a result of the proposed expansion than what is suggested at present. According to PIL's own statement, from the third year of the implementation of the new project, it would produce 16 million GLS and 3.5 million FT lamps; and after exporting 9.6 million GLS and 2.10 million FT lamps, an additional 6.4 million GLS and 1.4 million FT lamps will be placed on the domestic market. If however our conclusion that the machinery would be capable of producing more than the quantities indicated by PIL is correct, then the quantities placed in the domestic market can be larger. With the claim that even the existing machines are capable of producing more than what is produced at present kept alive by PIL, that also opens a way out for additional quantities of both types of lamps being placed on the domestic market. Further, PIL is already exporting certain quantities,

especially of FT lamps, without any export obligation. Unless its export obligation under the proposed expansion is in addition to its existing export level, the actual increase in domestic sales would be larger than indicated. A number of objectors have of course also pointed out that even with the best of efforts PIL may find that export of the magnitude suggested may not be possible: and in that case a larger part of the output would have to be sold domestically. It is apprehended by other Indian manufacturers that the proposed expansion will make the competitive position of Philips even stronger than it is at present. This apprehension is responsible for quite a large number of existing and potential producers of electric lamps raising objection to the present proposal.

Availability of Components to Other Units

5.09 It has already been pointed out that PIL is a major producer of components of electric lamps and that, in addition to meeting its own captive requirements, it supplies certain important components to other lamp manufacturers. We have tried to examine what the impact of the proposed expansion of Philips would be on the supplies of components to other lamp manufacturers by PIL. The data given in Table 46 will indicate that PIL will continue to have some spare capacity for meeting the requirements of other lamp manufacturers, even after their proposed expansion, in items like fluorescent powder and filaments. Taking into account, the additional capacity that is likely to be created in these items, it does not appear as if there would be much difficulty experience by other units regarding the availability of these components. Molybdenum wire is the only item in which PIL has an absolute monopoly. There appears to be no likelihood of any difficulty regarding the supply of this item to other lamp manufacturers as a result of the proposed expansion. Glass Shells and glass tubing are items which require considerable capital investment and for the supply of which small and medium units depend upon the larger ones. In glass tubing, PIL has been meeting certain requirements of Bengal Lamps and Mysore Lamps. Bengal Lamps has already undertaken the production of glass tubing and it may not require supplies from PIL for long. Mysore Lamps has also been licensed capacity for the production of glass tubing. It a may however have some problems till that capacity is actually installed and in operation. Glass shells are being produced by PIL and supplied to others. Mysore lamps and some other medium lamp manufacturers are among the buyers of this item. Mysore lamp has a licence for the production of glass shells which has not yet been implemented. Medium scale units cannot however be expected to produce their own glass shells and they would continue to depend on large units like PIL for supplies. If PIL's glass shell capacity remains what it is and its production expands as proposed, there is likely to be dislocation in the supplies of glass shells to medium scale lamp manufacturers. This matter needs attention. PIL's application for additional capacity for the production of glass shells has been rejected. One of the medium scale units specifically suggested at the public hearing of the present case that a condition should be imposed on PIL that as a part of the proposed expansion it will increase its supplies of components to other units. This it will obviously not be in a position to do if its production of components remains unchanged while its captive consumption increases as a result of expansion. If the Government finally decides to grant the proposed expansion, it will obviously imply that, unless there is full confidence that other licensed component manufacturers will commence production in good time, PIL's component production will have to be expanded. As a matter of fact, as we have mentioned earlier, an appropriate policy in this regard would be to provide larger capacities in component production to the larger units and restrict their final capacities of lamp production well below the capacities for components so that the smaller lamp manufacturers are not put to a handicap because of the shortage of components. Over-optimistic assessments regarding entirely new producers successfully entering the field of component production can create serious difficulties for the smaller lamp manufacturers who may be faced with larger lamp manufacturing capacity of big units on the one side and shortages of components and their price rises on the other. They will be squeezed out in the process.

Existing Demand for Lamps

- 5.10 The demand for GLS lamps and FT lamps is related to the availability of electricity in different areas, and it is also influenced by the levels of living, and the growth in industrial and commercial activities. According to a review of the industry made by the DGTD in December, 1973, "about 15 per cent of the total electricity generated is consumed for domestic, commercial and industrial lighting purposes." Because of economy in terms of capital as well as current expenditure, there is a tendency for GLS lamps to be substituted by FT lamps for many, especially non-domestic purposes. In GLS lamps, the demand for domestic lighting is the most important; while 75 per cent of the FT lamps are consumed for industrial, commercial and public lighting purposes
- 5.11 The Table below shows the average annual rates of growth in electricity and the production of GLS and FT lamps. (These data exclude the small scale sector). These figures indicate

TABLE 46

Impact of PIL's Proposal on Supply of Components

Item	PIL's licensed		Production	c	Car	Captive Consumption	nption	Additions for exp	Additional required for expansion	Total Rec Consumpt	Total Requirements Consumption in 1973
		1972	1973	Highest in last 5 years	1972	1973	Highest in last 5 years	lst year of expan- sion (8 mln. GLS 1.2 mln. FT)	Final year of expansion (16 mln. GLS & 3.5 mln. FT)	Plus 1st year of expan- sion: Gol. (7) +	Plus final year of expansion Gol. (7)+ Gol. (10)
60mm Glass Shells ('000)	20,000	33,888	28,779	33,888	20,840	21,850	21,850	9,672	20,510	31,522	42,360
Glass Tubing . (Tonnes)	3,600	3,084	3,223	3,292	228	231	233	75	132	306	363
Fluorescent Powder (Tonnes)	08	63	55	2 1 जपन	21	19	23	11	33	30	52
Filaments ('000)	000'09	80,599	75,098	86,947	29,730	29,990	30,500	11,450	25,300	41,440	55,290
Molybdenum Wire	2,400	1,090	805	1,090	135	142	142	54*	108*	196	250

Impact of PIL's Proposal on Supply of Components

ltem			Sales by	Sales by PIL to other	ther	Additional	requiremen	its of compo	Additional requirements of components as a % of sales to others in Highest sales in	% of sales to others Highest sales in	o others in sales in
						1972		1973	3	last five years	years
			1972	1973	Highest in last 4 years	lst year Final of expan- year of sion expansion	Final year of expansion	1st year of expan- sion	Final year of expan- sion	lst year Final year of expansion sion	Final year of expan- sion
60mm Glass shells ('000)	•		10,368	5,964	10,368	93.3	197.8	162.2	343.9	93.3	197.8
Glass Tubings (Tonnes)		*	1,688	1,533	1,688	4.4	7.8	4.9	8.6	4.4	7.8
Fluorescent Powder (Tonnes)	•	•	35	32	41	31.4	94.3	31.4	94.3	26.8	80.5
Filaments ('000)	•		51,808	42,968	63,147	22.1	48.8	26.6	58.9	18.1	50.1
120mm Shells (*000)	•	•	2,353	1,165	2,806	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

*Computed on the basis of the past consumption per GLS lamp.

Source :--Applicant Company.

that no clear correlation can be established between the two. There is a broad indication that the rate of growth in the demand for GLS lamps has been somewhat lower than the rate of growth in electricity generated, after the initial spurt in the First Plan period. In FT lamps, the increase in demand has been at much higher rates than those in the generation of electricity. FT lamps were introduced in the country in 1952. In the initial years, the demand increased at much faster rate as compared to that for GLS lamps or in relation to the rate of growth in electricity generation. Secondly, being related to a small base, the growth rates in initial years have been high. Nevertheless, the data for the Fourth Plan period indicate that, after having attained a certain level, the rate of growth in the production of FT lamps was about the same as that in GLS lamps.

TABLE 47

Average Annual Rate of Growth of Electricity Generated and Production of Lamps

		~	,	Electricity (capacity generated)	GLS Lamps (Production)	FT lamps (Production)
I Plan .	•			9.5	20.70*	356.04**
H Plan .		. •		12.5	11.43	27.52
III Plan				12.5	8.96	21.70
Interregnum (1966-	67			Ser.	
1968-69)	•	•		12.6	10.63	30.05
IV Plan		٠		6.4	8.98***	8.30***

^{*1955-56} over 1950.

Sources.-1. Five Year Plans 2. Economic Survey-1974-75. 3. D.G.T.D.

5.12. Data for the recent years suggest that there is little correlation between the generation of electricity on the one hand and the production of GLS or FT lamps on the other (See Table 48). It is true that when the electricity generation increased rapidly—about 15% in 1969-70—the production of GLS as well as FT lamps increased substantially in the next year; but when in the year 1973-74, electricity generation increased by 1.6% in 1974-75, the production of GLS lamps did not increase, but the production of FT lamps increased considerably even taking into account the reduction in production in 1973. Part of the increase in the production of FT lamps may be ascribed to exports which were substantial in 1974. The demand for FT lamps being mainly institutional, to some extent it also depends upon the establishment of new organisations, public and private, and their resource position. GLS lamps on the other hand reflect mainly household demand and therefore would be related to the availability of electric power on the one side and the expansion of housing and other aspects related to overall consumer demand on the other. The difficulties in the availability of power during the last few years has had some impact on the demand for lamps. For saving power, domestic as well as institutional consumers had to reduce the number of lights used. Lower voltage in many areas apparently gives longer life to lamps, though this may be offset by variations in voltage which may affect the life of a lamp adversely. Power shortage also means that availability of power for additional domestic connections is restricted and to that extent there is no new demand for electric lamps.

^{**1955-56} over 1952.

^{***1973} over 1968-69.

TABLE 48

Growth in the production of lamps in relation to growth in Electricity generated

		 Electric	ity Generated		ion of GLS maps		on of FT
Year		Billion Kwh.	%change over previous year	Quantity (million)	%change over previous year	Quantity (million)	%change over previous year
1969/1970	•	52.0	(14.4)	90.37	15.0	10.25	
1970/1970-71		55.8	8.4	103.93	15.0	10.92	6.5
1971/1971-72		60.7	8.8	111.06	6.9	11.26	3.1
1972/1972-73		63.6	4.8	127.33	14.8	12.61	12.0
1973/1973-74		64.6*	1.6	127.73	0.2	11.56	() 8.3
1974/1974-75			7.8†	125.35	() 1.9	15.55	34.5

Note.—Figures of electricity generated relate to financial years while figures of production of GLS and FT lamps relate to calendar years.

†April-November, 1974 compared to April-November, 1973.

Sources-Economic Survey, 1974-75

D.G.T.D.

Future Demand

5.13. Various estimates have been made about the demand for electric lamps in the terminal year of the Fifth Five Year Plan, The Task Force No. VI on "Other Engineering Industries" set up by the Planning Commission's Steering Group on Engineering Goods had projected the demand in 1978-79 as under:

TABLE 49

Future Demand Estimates made in Task Force

(in million Nos.) Additional Capacity 1973-74 Target for 1978-79 1978-79 (estimated) Un- Total Pre-Orga-Domes- Exports Total Total Domes- Exorganised sent tic ports tic ports Secnised capa-Sector city tor 220 130.00 209 20 16.00 331.00 315.00 183.00 GLS Lmaps. 175.00 8.00 28 22.00 28 28.35 27.00 1.35 FT Lamps . 15.00 0.75 15.75

^{*}Provisional.

^{5.14.} The projected demand appears to be highly exaggerated mainly due to wrong estimates of the demand for the Base Year (1973-74). The Task Force had estimated the domestic demand in 1973-74 at 175 million GLS lamps to which were added 8 million by way of expected exports making

a total of 183 million. However, in the terminal year of the Fourth Plan, exports were only about 1.25 lakhs of GLS lamps (data for 11 months). The total domestic production in this year, consisting of 127 million as the production of the units registered with the DGTD and 8 million as the estimated production of small-scale units, adds up to 135 million pieces. Thus, the Task Force had assumed in the base year (1973-74) as excess demand to the extent of 40 million lamps. Moreover, the projected estimates for the terminal year of the Fifth Plan (1978-79) seem to have been based on an over-optimistic rate of growth both in relation to the domestic demand as well as exports. The exports were expected to double during the Fifth Plan period which means an annual rate of growth of about 20 per cent. Insofar as the domestic demand is concerned, the rate of growth with base of 175 million GLS lamps and the targeted demand at 315 million GLS lamps works out to 16% per annum. This has hardly any relationship with the envisaged rate of growth about 10% in electricity (capacity) generation during the Fifth Five Year Plan.* Moreover, the achievement of this latter rate is also doubtful.

- 5.15. It should also be taken into account that, with increasing production of electric power, the proportion used for domestic and commercial lighting is bound to decline. From 16.8% in 1960-61, power utilised for domestic and commercial lighting as proportion of total power utilisation had declined to 14.7% in 1970-71. There is also an increasing emphasis in policy on giving priority in power utilisation to industrial and agricultural production. It would not therefore be wrong to assume that the demand for lamps is not likely to increase at the same rate as the increase in power generation.
- 5.16. In an industry review, prepared in December, 1973, for the Licensing Committee, the DGTD estimated the demand for GLS lamps at around 380 million in 1978-79, and with a provision of additional production of 10% for exports, it suggested a target of 418 million GLS lamps. It assumed the base for projections at 188 million GLS lamps per annum which was the envisaged demand for the terminal year of the Fourth Plan. For the reasons discussed earlier, this estimate also cannot be considered to be very reliable.
- 5.17. The DGTD in its letter dated December 26, 1974, has furnished revised estimates of demand at 250 million GLS lamps in 1978-79 with the base year (1974-75) demand of 140 million. This works out to a rate of growth of early 20 per cent per annum. Even this is not in conformity with the trends in demand as observed in the recent past, nor does it have a realistic co-relation with the expected growth in electricity generation.
- 5.18. The Planning Commission did not accept the recommendations of the Task Force. It put the demand for 1978-79 at 190 million GLS lamps on the basis of 125 million as the demand in 1973-74. This assumes 10.4% rate of growth per annum.
- 5.19. The Applicant Company as placed the demand in 1980-81 at 280 million GLS lamps. with 140 million lamps as the demand in 1973. The Applicant expects a rate of growth at 10%. If we apply the projections made by the Applicant Company to the terminal year of the Fifth Plan period, the demand for 1978-79 works out to 210 million GLS lamps. This estimate is not very much at variance with the demand as projected by the Planning Commission.
- 5.20. The production of GLS lamps both in 1972 and 1973 was about 127 million lamps. Data about the small scale sector are not fully available but it has been estimated that the small scale units produced in that year about 16 million lamps out of which only about 8 million were sold. This suggests that it would not be wrong to assume that the demand for GLS lamps in 1973-74 was 135 million. When considering the demand estimate for the end year of the Fifth Five Year Plan, we cannot ignore the fact that production in 1974 appears not merely to have been stagnant but that it underwent a decline. Production in the large scale sector declined by two million GLS lamps and the small scale sector appears to have faced anormous difficulties which probably implies that their production must have been much lower than what was estimated for 1973. As the Economic Survey for 1974-75 has pointed out, electricity generation declined in 1973 thought it is picking up now. It therefore does not seem probably that the target of electricity generation laid down

^{*}According to the Economic Survey—1974-75, "the Fifth Plan proposes addition of 16.5 million KW to the generation capacity of which the share of schemes spilling over from the Fourth Plan is as high as 10.8 million KW. By all accounts, the Fifth Plan target for additional capacity is fairly ambitious... On present indications, the generation of electricity in 1974-75 will increase by 8-10 per cent over 1973-74. However.... the medium term outlook still points to the persistence of shortage in three out of four regions". It may be added that during the Fourth Plan, there was a shortfall of over 50% in achieving the target for generation of additional electricity.

²⁴⁻⁸ MofLJ&CA/ND/79

in the Draft Fifth Plan will be reached. All this suggests that the demand for GLS lamps is unlikely even to increase at the rate of 10% per annum during this period. At the same time, it has to be noted that various incentives are being provided for development of exports of electric lamps. It is not however certain how much increase in exports will actually be achieved. Leaving aside exports, it can be clearly seen that any demand estimate of about 190 million GLS lamps for 1978-79 has to be treated as highly optimistic.

- 5.21. In the case of FT lamps, the Task Force had assumed a demand of 15 million in 1973-74 and on that assumption placed domestic demand in 1978-79 at 27 million. In addition, a provision was made for exports of 1.35 million of FT lamps in the terminal year of the Plan period. Thus, according to the Task Force, the targetted demand including exports was 28.35 million—an annual rate of growth of 16.0%. The Planning Commission revised this drastically. With a base year (1973-74) demand of 12.8 million, the demand has been projected at 17 million in 1978-79, i.e. an annual rate of growth of 6.6%. However, no provision has been made for exports. The DGTD has placed the demand for FT lamps in 1974-75 at 12.8 million and the target of demand in 1978-79 at 17 million, the same as the Planning Commission. Since the projected period coveres only a four-year period, the rate of annual growth works out to 8.2%.
- 5.22. The Applicant Company has placed the 1973 demand at 12.5 million and on the basis of an increase of 15% per annum, the all India demand of FT lamps has been projected at 34.35 million in 1980-81. If we assume the same rate of growth till the end of the Fifth Plan period, the base year demand remaining the same as given by PIL, the estimated demand in 1978-79 is 26 million FT lamps. In 1973, the production of FT lamps was 11.5 million FT lamps to the extent of half a million were exported in that year. The domestic demand for that year may therefore be placed at, say, about 11 million. It needs to be noted that the production in 1973 was less than that in 1972 when the production was 12.6 million. The production in 1974 has again increased and reached 15.5 million. Leaving aside transient phenomena which are not very clear it appears that the demand for FT lamps would be at the level of 17 or 18 million by the end of the Fifth plan period. FT lamps have also been exported much more than GLS lamps and in 1974 the exports increased significantly. If about 1.5 million FT lamps were exported in 1974, domestic demand can be put at 14 million. If at least 10 FT lamps continue to be export, the total demand in 1978-79 may be placed at 19 or 20 million—17 to 18 million for domestic consumption and about 2 million for exports.

Possible Impact of Proposal on Structure of Industry

5.23. In the previous chapter we have given available information about the new capacities for which licences and letters of intent have been issued. The data about this and the data about the demand estimates are brought together in the following table:

TABLE 50

Demand and Supply Position of GLS and FT Lamps

(in million nos.)

Types of lamps			Licensed Capacity	Installed Capacity	New Ind. licences and Letters of intent	Total (col. 3 plus col 4)	Demand in 1973-74	Demand in 1978-79		
1					2	3	4	5	6	7
GLS		. •	•		160.07	166.07	130.90	290.97	135.00	190.00
F.T.	•	٠	•	•	13.87	18.67	6.02	24.69	11.56	20.00

^{5.24.} It is indicated that in the case of GLS lamps, the gap between the already installed capacity and the estimated demand in 1978-79 is only 24 million while licences and letters of intent have been issued for about 130 million. It appears that, according to the information available with

the DGTD at present, capacity for only about 60 million is actually likely to come up in the near future. Even then there is hardly any gap which needs to be filled for satisfying domestic demand in the case of GLS lamps through the installation of additional capacity by PIL. Moreover, our earlier discussion about the confusion regarding what is called installed capacity and the full potentiality of production from that capacity suggests that there is a certain cushion even in the existing installed capacities.

- 5.25. As regards FT lamps, the installed capacity at present is put at about 18 million while the demand in 1978-79 (including the requirements for expected exports) is estimated at about 20 million. Licences and letters of intent have been issued for a capacity of 6 million and the present judgemet of the DGTD appears to be that capacity for about 3½ million will actually be installed as capital goods clearance have been given for this additional capacity. As in the case of GLS lamps, so also in FT lamps, what has been called installed capacity has a certain cushion as actual production can be much more than the installed capacity. Even in respect of FT lamps, therefore, there is little scope for additional capacity to be created by PIL for the purpose of satisfying demand, including the requirements of exports.
- 5.26. The above discussion suggests that if PIL is permitted to create the proposed capacity in GLS lamps and FT lamps, and even if 60% of the additional output from the new machinery is exported, there would be little scope for the remaining output to enter the domestic market without 'spoiling' it and having an adverse impact on the newer and smaller units in the industry. It has already been pointed out earlier in this Report that, in any situation where the actual output or potential capacity are found to be more than what is required to satisfy the market, this has an adverse impact on the smaller units and to some extent on the wholly Indian owned units like Bengal Lamps. In view of the difficulties that have been experienced in the GLS lamps market during the last few years, as a result of which the actual output of most units—but not PIL—has had to be much lower than their production capacity, the present atmosphere is hardly one conducive for the growth of new units. In case the present proposal of PIL is approved, there would be a genuine fear that the prospects for new units in the GLS lamps field would be dim indeed, and this would discourage new units for coming up. The result may well be that PIL's dominant position in the market will not only continue but be further strengthened. The position would be approximately similar in the case of FT lamps. PIL has even a more predominant position in this item and therefore approval of its proposal and the prospects that 40% of the output would be put on the domestic market may well create a felling of apprehension and uncertainty in the minds of those to whom new licences and letters of intent have been issued. Moreover, as has been pointed out earlier, the actual potentiality of output from the proposed expansion may be found to be much more than what is indicated by PIL at present. PIL has also thought of an export obligation only for five years and this is bound to create the apprehension that the whole of their extra output would be placed on the domestic market at the end of that period. The fact that, as a result of implementing the expansion proposal, PIL would produce certain new types of GLS lamps, and also new sizes and types of FT lamps, would add to its market power domestically in that it would be in a position to provide varieties of the product which may not be produced by others. All in all, it would thus be seen that the approval of the present proposal for expansion, even with the obligation of 60% of the production from the new capacity being exported for a period of five years, is quite likely to have an adverse impact on the existing medium units as well as new units that are expected to enter the If this is the result of approving PIL's expansion proposal and the expected new capacity does not come up to a significant extent (a unit like HMT may come up despite these prospects) it may retrospectively justify PIL's proposal. That is the contradiction which arises as a result of the growing market power of a unit. The prospect that PIL's market power would increase would itself prevent new-competitors from entering the industry, as a result of which it would be found that the expected demand cannot be satisfied except by relying on PIL's expansion. But the final result of this may well be that, instead of fostering more competition in the industry and encouraging new entrepreneurship, we shall be increasing the degree of monopoly power of PIL in the electric lamp industry.
- 5.27. Another aspect of this proposed expansion of PIL also needs to be kept in view. This is that PIL would continue to depend mainly upon its parent company for the technical know-how regarding more advanced production of electric lamps. It is true that PIL has now stated that no special fee for the technical assistance that would be involved in the production of new types would have to be paid and that Philips (Holland) will provide such assistance because of its continued interest in the Indian company. Nevertheless, it remains true that the Indian company would be dependent upon the parent company for most of the know-how in this field, and there would be little technological development in India itself. The fact that the largest single unit in the lamp industry would continue to depend on foreign technical know-how for a long time would not be very desirable from the point of view of the long term growth prospects of the industry.

5.28. The conclusion of this analysis is that the proposed capacity not only is unnecessary for satisfying the expected demand in the Fifth Plan period but that approval of the proposal is likely to have other adverse consequences. The fact that the projections of PIL's proposal go beyond the Fifth Plan period would not make any significant difference to this analysis as the logic of these arguments would apply even in the extended period. The worthwhileness of PIL's proposal would, therefore, very much depend upon the possibility of PIL being able to develop itself increasingly as an exporter of electric lamps not only in the sense of exporting 60% of the cutput from the new machinery for five years, but going well beyond this.

Economies of Scale

5.29. One possible justification of any proposal for expansion of capacity can be that such expansion leads to considerable saving in costs and, therefore, ultimately benefits the consumer of the product as well as the national economy. The Commission put this aspect of the proposal to the applicant company and asked for data which would indicate how the expansion that had already been achieved in the past had helped cost reduction, and to what extent the consumer had benefited in the process. The applicant company in one of its answers had stated as follows:—

"Beyond a certain level the scale of production does not necessarily result in any substantial reduction in the cost of production."

This was too vague an answer to be helpful for the purpose of examining the proposal. When the matter was again raised at the public hearing, the Applicant Company agreed to make some material available to the Commission relating to this aspect. What was made available mainly suggests that the fact that the production is being undertaken on a two-shift basis instead of a one-shift basis leads to considerable economies, especially on account of saving in depreciation cost. PIL has calculated that if the lamps were made only on a single shift basis, the cost would have increased by about 12% for 1973. The applicant company has found it difficult to make any calculation regarding other savings, in the consumption of raw material or the use of labour, mainly because numerous changes have taken place over the years in addition to the increase in output. The types and value of raw materials and components have undergone significant changes, e.g., brass caps have been replaced by aluminium caps; the production of components has undergone many changes—technological and economical—and this has had its effects on the degree of breakage and wastage in the production of the final product; import substitution of various items has been carried out etc. To give some idea of how increase in costs has been absorbed as a result of larger output, data have been provided about the list prices of GLS lamps and FT lamps for the period from 1966 onwards, and data have also been provided about changes in excise duties and the labour wage increase for this period. (See Table 51). What is suggested is that as compared to the increase in wages, the increase in net prices has been much smaller and that this was possible only as a result of the economies achieved with larger production. What is to be remembered in this connection is that labour costs (wages and salaries) constitute only about 20% of the total turnover of the Applicant Company. With only these data it is not possible to come to any conclusion about the advantage obtained by the national economy as a result of the increases in production that the applicant Company has achieved over this period. What is significant is that not only have its net prices consistently increased but that the prices have increased specially rapidly during the last few years, which is also the period when the company's production has largely increased. The fact that the applicant company enjoys a position of price leadership in the electric lamps industry, and that its products usually command a slight premium over other products; suggests that its larger production has been of no direct benefit to the consumer. At the most what can be said is that the economies that it might be obtaining as a result of larger production is one of the factors responsible for its high profitability. This factor cannot, therefore, be counted in favour of the proposal.

Prospects for Exports

5.30. A beginning towards the export of electric lamps from India was made in 1960-61, when lamps valued at Rs. three lakes were exported. Since then, the exports of these items have

increased quite substantially, reaching Rs. 108 lakhs in 1973-74. The data about exports during the past five years are given below:—

TABLE 52

Value of Exports of GLS & FT lamps

	Y	ear								Rs. lakhs
1969—70	•		•		•	•				54.50
197071		•		•				•	•	62.92
971—72		•								39.35
1972—73	•			•	•	• , ;	•		•	62.21
1973—74	•				•	,				108.48

Source: Engineering Export Promotion Council.

TABLE 51

Comparative Increases in Prices of lamps and Wages

Year			GLS Lar	nps (60W)		FT Lam	ps (40W)	Wa	ge Index*
rear		List Price	Excise Duty	Price Exclud- ing Excise	Index with 1966 = 100	List Price	Excise Duty	Price Exclud- ing Excise	Index with 1966 = 100	with 1966= 100
1		2	3	4	5	6	7	8	9	10
1966		185.00	10.00	175	100	। जयते	••	••	• •	100
1967		185.00	11.00	174	100	1,160.00	176.00	984	100	110
1968		185.00	11.00	174	100	1,160.00	176.00	984	100	121
1969		185.00	15.13	170	97	1,160.00	186.47	974	99	123
1970		195.00	15.94	179	102	1,175.00	188.88	986	100	164
1971		205.00	16.76	188	107	1,275.00	242.74	1032	105	174
1972		205.00	16.76	188	107	1,275.00	242.74	1032	105	187
1973		255.00	20.85	234	134	1,500.00	285.58	1214	123	230
15-4-74	•	275.00	29.59	245	140	1,600.00	353.57	1246	127	N.A.
2-9-74	• ,	290.00	31.74	258	147	1,800.00	400.71	1399	142	N.A.

^{*}Prepared by PIL on the basis of wages earned by a semi-skilled machine operator. Source.—Applicant Company.

^{5.31.} These data indicate that, from 1969-70 to 1972-73, the exports have been unsteady, attaining a level of Rs. 62 lakhs in 1970-71 and 1972-73 but declining to Rs. 39 lakhs in 1971-72. However, there has been a big jump in exports in 1973-74, inasmuch as exports in that year increased to Rs. 108 lakhs in comparison to Rs. 62 lakhs in the year 1972-73. The main markets to which lamps are exported are Egypt, Iraq, Kuwait, Iran, Bhutan, Nepal, Sikkim, Bangla Desh, Burma, Singapore, Malayasia, Thailand, South Korea, Sri Lanka and Indonesia. Thus, most of the exports are destined for West Asian and South-East Asian countries.

- 5.32. Most of the existing units, including PIL, have indicated that the future prospects for exports of lamps are only moderately good. The prospects for exports of lamps have been analysed by Shri H.S. Manak of PIL in a paper contributed to the recent seminar organised by Electric Lamp & Component Manufacturers Association of India, as under:
 - (i) "In the first place the market is dominated by international giants from the U.K., Europe Japan and Hungary. Manufacturers in these countries produce hundreds of millions, of lamps and therefore command a very influential position in the world market.
 - (ii) "Newly developed countries have installed capacities for the manufacture of electric lamps in recent years and have therefore tried to give protection to their local industry by closing their borders. Although the total production achieved in these respective countries in relatively small at many times uneconomic, they are continued for purely national reasons. It is therefore difficult to penetrate into these markets with the standard range of incandescent and fluorescent lamps; if we do want to enter into these markets, it would be essential to produce special types of lamps suitable for specific applications for which there is a demand in the country and of which there is no local production.
 - (iii) "The third category is a transient phenomenon in the world market where it is observed that lamps are offered into the world market especially from the East European countries as well as China at substantially lower than the ruling international prices. These may be called 'political prices' and are difficult to combat except through organised and substained marketing efforts on a long term basis. This phenomenon was also noticed during the '60s from export of lamps made by Japan which were so heavily subsidised by the Government that the prices quoted by Japanese manufacturers were substantially lower than these (those) quoted by any other manufacturer around the world.
 - (iv) "It has been noticed that from time to time there is an international shortage in lamps and during those periods new entrants can develop contacts and establish themselves to some extent. This happened during 1972 and 1973 for fluorescent lamps, reflector lamps and even for incandescent lamps. During this year, due to the acute energy crisis being faced all over the world, the demand seems to have reduced considerably."
- 5.33. Apart from the fact that Indian lamps will have to compete with international giants in this industry, and further that lamp industries are being developed in most of the developing countries, there are certain other difficulties which an Indian exporter has to face. Among these difficulties the important ones are reported to be:
 - 1. High cost of production in India;
 - 2. High freight rates which are also continuously raising;
 - 3. Delay in delivery schedules on account of infrequent sailing of ships from Indian ports;
 - 4. High rate of breakage involved during transportation.
- Export Promotion Council at about \$400 million per annum. It is thus obvious that the Indian exports in 1973-74 (Rs. 108 lakhs) form only an insignificant proportion of the total international trade in lamps. Taking into consideration the size of the world imports, the possibility that in some of the West Asian countries lamp manufacturing industries may not be established in the near future, and the fact that efforts will be continued by some of the leading Indian manufacturers to push, exports in the foreign countries around India, it is likely that Indian exports may expand further. The Engineering and Export Promotion Council, keeping in view of the overseas orders in hand, the world demand and the market trends in the importing countries, has projected exports of GLS and FT lamps (together) at Rs. 125 lakhs in 1974-75 and Rs. 400 lakhs in 1978-79. In the recent (January 1975) seminar organised by Electric Lamp and Component Manufacturers' Association of India, the future prospects for exports of Indian lamps were considered to be good provided incentives given by the Government were substantially increased. Another suggested condition was that freight rates should be considerably reduced. The incentives now being granted are already quite liberal and it is unlikely that they will be further increased. The rate of import replenishment in the case of FT lamps is @40% and in the case of GLS lamps @30%. A uniform cash subsidy of 10% for the two types of lamps is also in vogue. In addition, the exporters are also entitled to benefits in terms of duty drawback on imports and rebate on excise duty and sales tax

Past Exports from PIL

5.35. The exports that PIL has been able to effect in this field since 1969 can be seen from the data given in the table below:—

TABLE 53

PIL's exports of GLS and FT lamps since 1969

Quantity in '000'

Value in Rs. '000'

	v	ear		Qua	ntity	Val	ue	Destination
		cai		GLS Lamps	FT Lamps	GLS Lamps	FT Lamps	Destination
1969		•	•	30.00	430.00	27 (0.90)	777.00 (1.8)	Hong Kong, A.R.E., Iran.
1970	•	•	•	74.60	255.40	45 (0.62)	560.00 (2.2)	Hong Kong, Sri Lanka, Zambia, A.R.E., Malayasia, Sudan.
1971	•	•	•	35.40	135.60	17 (0.50)	276.00 (2.0)	Sudan, A.R.E., Iran, Sri Lanka.
1972	•	•	•		739.00	(See See	2,234.00 (3.0)	Czechoslovakia, Sudan, Secychelles, Iran.
1973	•		٠	••	158.40		416.00 (2.6)	Abu Dhabi, Czechoslovakia, Iran, Nigeria
1974	•		•	••	1,103.90		3,450.10 (3.13)	N.A.

Figures in brackets indicate average realisations.

Source.—Applicant Company.

5.36. It would be recalled that one of the conditions laid down when PIL was permitted to obtain foreign loans for expansion in the early 60's was that it would endeavour to effect exports to the extent of 10-20% of its cutput*. The data given below suggests that its exports have been far less than what was suggested:—

TABLE 54
Exports by PIL (in relation to its total turnover)

				-				Total Sales (Rs. lakhs)	Exports (Rs. lakhs)	Per- centage %
1969 .			•	•				3,021	74	2.4
1970 .								3,768	106	2.8
1971.							•	4,656	54	1.2
1972 . *					•			4,911	105	2.1
1973.			•	•				5,043	112	2.2

^{*}Also see Appendix VII

Source.—Applicant Company.

It is true that PIL's export drive has become more intensive recently. It has been claimed that its exports exceeded Rs. 3 crores in value in 1974. Even then this does not come anywhere near 10%

leave alone 20%, of its turnover. In respect of exports of lamps also, its export record in the past has not been particularly good. GLS lamps have hardly been exported. In FT lamps, however, it has made a good beginning in the last few years and exports have specially shown an increase in 1974. It appears that PIL was able to obtain an indication from its parent company that the latter's good offices would be available for effecting substantial exports from as early as 1969 when the present expansion proposal was initially mooted. As mentioned earlier, Philips (Holland) had been agreed to effect exports of the value of Rs. 50 lakhs per year for a period of 5 years. For various reasons, including PIL's apparent reluctance to file an application under the MRTP Act, the expansion proposal has been pending since then. It is, however, not clear why PIL could not use the export offer made by its parent company and effect exports during all these years. PIL was asked about this by the Commission and in answer it has submitted as follows:

"The export project submitted in 1970 was originally submitted in 1969 as part of our expansion plan under the Fourth Five Year Plan and in response to Government of India's notification inviting the lamp industry to submit their expansion plans for the Fourth Five Year Plan. We had, at that stage, brought out this export project. We were subsequently requested to resubmit this project separately, which we did in 1970. Our production volume does not justify any major export without taking into account the present project. However, already since 1969, we have been building up our export efforts for export of lamps, with the assistance of Philips Holland."

This answer is not convincing. The fact that PIL's production has increased considerably during the years since 1969 suggests that it would not have been difficult for PIL to export on the scale required. As a matter of fact, during the last few years, there has been a glut in the domestic market for GLS lamps, and even in FT lamps there were glut conditions for some time. PIL, of course, did not suffer much; but other units found themselves saddled with accumulated stocks and some of them had to cut down production. If PIL had undertaken an export effort on the basis of the facility its parent company had agreed to, it would have definitely been of national advantage at a time when the country was facing serious foreign exchange shortages. That the PIL failed to do this implies that its export oriented proposal has been made merely because that appeared to be the only way of obtaining approval to its proposed expansion. It does not appear to have thought basically in terms of developing itself as an export oriented unit for the purpose of helping the country in its balance of payments difficulties. At the time of the public hearing the representatives of PIL laid stress on the point that export in electric lamps requires a whole package of lamps to be available, and therefore, until the expansion project was implemented and they could produce various special lamps in addition to their existing product range, they would not be in a position to effect exports which had been mentioned in 1969. While we agree that there is some strength in this argument, it is difficult to understand why exports had to await the implementation of the proposal in as much as quite many varieties are in any case being produced by PIL. Moreover, PIL has undertaken to export even from the first year of the expansion proposal and it is not likely that it would be producing right from the first year all the varieties that it proposes to produce. As a matter of fact, Philips (Holland) appears to have included exports from PIL in their world-wide marketing plan in 1969*. This suggests that it should have been possible for PIL to effect exports right from 1970 irrespective of the progress of the present proposal. It is a pity that this opportunity was not utilised.

"We are pleased to note that your Government has now invited applications for expansion and creation of additional capacities in the lamp industry. We fully endorse your plans to expand and diversify your range of production in your Kalwa Light factory.

"Since to realise these plans, you would be obtaining from us modern machinery as are being currently used by us here in Europe, it should then be possible for you to produce a full range of products upto our international standards.

"Consequently we believe that, if you are able to create the capacities you are now seeking your Govt.'s permission for, within a reasonable time both in quantities and in various types, it would be possible for us to arrange for the export of these various types of lamps and/or lamp components from your production to various of our association organisations around India.

^{*} In this connection, the following extracts from the letter by Philips (Holland) to PIL, written in May 1969, would be of interest.

"We expect that after implementation of your expansion plan it should be possible to realise an average annual export level of Rupees five million per annum during the subsequent five years. However, to realise such export level, we have to emphasize the importance of an early realisation of your plants.

"We look forward to your further news in this regard to enable us to take your production programme in our supply planning for the overseas Philips organisations referred to above. If it would be likely that the delay will be incurred in securing your Government's permission for your expansion plan, we would much appreciate being informed of same to enable us to make alternative supply arrangements for the relevant organisations."

Are Exports Worthwhile?

- 5.37. The record of the applicant Company in respect of its total exports has already been set out in Chapter I and its implecations in terms of net gains examined. We have examined this matter in greater detail in respect of electric lamps as the present proposal is justified mainly as an export-oriented one. Table 55 summarises the data obtained from the applicant Company regarding the economies of its exports of GLS and FT lamps during the years 1969-73.
- 5.38. In the discussion at the public hearing, the representatives of the applicant Company pointed to what in their view was a major shortcoming in the kind of analysis that the Commission has put forward in Chapter I. It was pointed out that there were a number of taxes which enter the costs of raw materials and components and that, while for the large ones separate calculations are made and duty drawbacks obtained, this is not possible in respect of many items. The Commission was then assured that the Company would attempt to provide data abuot a representative product for this purpose. Data about the indirect taxes which enter the cost of production of a 60W GLS lamps have since been made available to the Commission. In view of the fact that there has already been any export of GLS lamps, the Commission would have preferred such data about FT lamps. It was however pleaded on behalf of the Company that such analysis would be much more complicated in respect of FT lamps. The analysis regarding the GLS lamps suggests that ex-factory cost will have to be modified by deducting about 15% from it if the actual cost without taxes, of the materials and labour that have gone into its production has to be calculated. On this basis, we have revised the figures supplied by the applicant Company. Taking the average foreign exchange rate per US dollar during these years, our calculation shows that the cost paid for obtaining foreign exchange through exports effected by PIL has varied between Rs. 6.9 and Rs. 9.5 if only ex-factory cost of the exported products are taken into account, and between Rs. 8.0 and Rs. 11.4 if all costs are considered.
- 5.39. Taking into account the fact that this is only the beginning of an export effort by the PIL in this line, which is also a very competitive line in the international market, one cannot say that the results achieved are too bad. This is specially so if only ex-factory costs are taken into account as would be appropriate for purposes of considering the worthwhileness of exports. It may also be noted that the rates at which exports have been effected have been improving. The rates obtains in 1973 from the exports of FT lamps were much better than those obtained in 1971, and, it has been claimed that more recently the rates have further improved.
- 5.40. As regards the prospects of the exports to be effected under the expansion proposal the data supplied by the applicant Company has been analysed by us and the summary of the analysis can be seen from Table 56.
- 5.41. The analysis suggests that on the basis of ex-factory costs (minus 15% as explained above), exports would be very economical in that the cost of purchasing foreign currency would be about the same as the official parity rate. It is thus seen that exports of lamps as proposed by PIL would be very much worthwhile and would be of great benefit to the country.

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	19	969	1	970	1	971	1972	1973
	GLS	Fluo	GLS	Fluo	GLS	Fluo	Fluo	Fluo
I. Export Quantity								
(Lakh Nos.)	• •	• •	••	••	••	1.36	7.39	1.58
II. F.O.B. Realization (Rs. lakhs)	0.30	7.70	0.50	5.60	0.20	2.70	22.30	4.20
III. Factory Cost		,						
Raw Materials .	0.20	8.50	0.40	5.10	0.20	2.80	16.70	3.70
Conversion Cost .	0.10	2.90	0.10	1.80	••	1.20	6.70	1.70
Factory Cost .	0.30	11.40	0.50	6.90	0.20	4.00	23.40	5.40
Less estimated duties & tax @15.0%.	• •	1.71		1.04	••	0.60	3.51	0.81
Balance .	0.30	9.69	0.50	5.86	0.20	3.40	19.89	4.59
Averageforeign exchange rate—Rs. per U.S. Dollar as per Reserve Bank Bulletin		7.55		7.56		7.54	7.73	7.85
Cost paid for purchasing* one U.S. Dollar at average foreign ex- change rate		9.50	सन्यमेव ज	7.91		9.49	6.90	8.58
Cost paid for @ Rs. 7.58 per Dollar	• •	9.54		7.93		9.54	6.76	8.28
IV. Total Cost								
Adm. Cost Selling & Distribution Cost		1.00	0.10	.80	• •	0.70	3.40	0.90
- -	• •	10.69	0.60	6.66	••	4.10	23.29	5.49
Cost paid for pur- chasing* one U.S. Dol- lar @ average foreign exchange rate		10.48		8.99		11.45	8.07	10.26
Cost paid for* purchasing one U.S. Dollar @7.58 per Dollar .		10.52		9.01		11.51	7.91	9.91

^{*}Calculated by the MRTP Commission. Source.—Applicant Company.

TABLE 56

Cost of purchasing one—U. S. Dollar from the exports of GLS and FT Lamps by PIL during First Five years after expansion after allowing 15% reduction on account of tax etc.

							lst year	2nd year	3rd year	4th year	5th year
I.	Exports—Quantity—(1	akh No	s)			,					
	GLS	•		•			48.0	72.0	96.0	96.0	96.0
	Fluorescent Lamps	•	•	•	•		7.2	18.0	21.0	21.0	21.0
II.	Export—F.O.B. Real	isation	on tl	ne basi	is of G	LS		Rs	./lakhs		
	@0.75 and FT @ R	s. 3.25	per	Lamp)	•	59.40	112.50	140.20	142.20	140.20
III.	Factory Cost										
	Raw Materials						50.70	97.00	120.60	120.60	120.60
	Conversion Cost	•	•	•	•	•	20.40	39.40	48.70	48.70	48.70
				•		•	71.40	136.40	169.30	169.30	169.30
Less	estimated duties etc.	@ 159	%	•	•	•	10.67	20.46	25.40	25.40	25.40
Bala			•	•	. 53	THE STATE OF	60.43	115.94	143.90	143.90	143.90
	Cost to be paid for* p @7.58 per Dollar	urchasi •	ing c	ne U.	S. Dol	llar	7.71	7.81	7.78	7.78	7.78
IV.	Total Cost			1							
	Adm. Cost . Selling & Distribution	Cost	•	•	OWE !		8.90	16.90	21.00	21.00	21.00
					Lill	1	69.33	132.84	164.90	164.90	164.90
Cost pe	paid for purchasing* er Dollar	one U	.s. I	Dollar •	@ 7.	58	8.85	8.95	8.91	8.91	8.91

^{*}Calculated by the M.R.T.P. Commission.

Source: Applicant Company.

5.42. In this context it may be useful to take note of the results achieved by other Indian undertakings which have attempted to export electric lamps. The Commission was able to obtain information only from one lamp manufacturer who has attempted to export his product. In its case the analysis of the data are given in the Table below:—

TABLE 57

Cost of purchasing ONR—US Dollar calculated on the basis of exports of FT lamps by one Indian Lamp manufacturer in 1974-75†

			-							(1974-75)
										Rs.
I. F.O.B. Realisation	•	•	•	•	•	•	•	•	•	3,200.00
I. Factory Cost										
Raw Material .	•		•	•		•	•	•		4,520.00
Conversion Cost.						•		,•	•	1,024.00
Total-Factory Cost	•		•	•		•	•	•		5,544.00

[†]The data furnished by the Company are based on 1000 ft lamps exported.

	Less										
	Rebate of Excise Duty							•	•		
	Sales Tax			•			•				••
	Packing				•						
	Duty Draw Back		•		•	•	•		•		730.00
	Net Factory Cost of Lamps		•	•			•				4,814.00
	Profit(+)/Loss ()						•	•		.(-	-)1,614.00
	Cost of Purchasing ONE-U	Ş Do	llar	•		•		•		•	12.04
III.	Total Cost										
	Administration Costs		•	•	•						582.00
	Selling & Distribution Cost	•		•	•	•.	•	•		•	505.00
	Total Cost	•			•						5,901.00
	Total Cost Profit (+)/Loss	(—)					•	•		(—	2,701.00
	Cost of purchasing ONE—U	JS D	ollar	•	•				•	•	14.75
	After deducting 15 per cent the purchase of raw materia	on a	ccour d con	nt of examples	ccise d	uty, s	ales ta	ax, etc	. paid	on	10.23 Factory Cost 12.95 Total Cost

- 5.43. It is true that the information is available only for one year. It would therefore be incorrect to attempt a general comparison of results. It may however be noticed that the cost of obtaining foreign exchange is higher in this case. We have also received some information from a company which does not manufacture lamps but markets them after obtaining its share of the lamps manufactured by ELMI and Hind. The data supplies by that Company about its exports in the year 1974 shows a very small foreign exchange loss as compared to its purchase price of GLS lamps. These data though scanty suggest that, in spite of various handicaps from which electric lamp manufacturing in India suffers, it may not be impossible to think of this industry as one which can build up exports on a sustained economical basis. It is also clear that in attempting to develop exports on a sustained basis, an organisation like PIL with its affiliation abroad would have a distinct advantage over wholly Indian manufacturers.
- 5.44. PIL has pointed out that export performance depends upon a number of factors. "An overseas buyer is a discriminating person and has the whole world to choose from. He has to be cultivated, developed, and convinced of our competence and our delivery disciplines and also the quality standards. It takes time and effort to establish this kind of credibility." and again "the export of lamps on a short term basis in meaningful quantities in the overseas market can only be attempted when there is a strong support from organisations like Philips. Being a consumer item these products are sold on the basis of brand image. Brand image is built over a long period of time with consistent quality, strong promotion and healthy marketing disciplines. Considering the fact that Philips Holland have agreed to assist us in the export of 60 per cent of our proposed production we should not have any problem in achieving the exports proposed."
- 5.45. We agree that for effecting exports on a large scale and on a sustained basis, an organisation like PIL has special advantages. It is therefore of great importance that it should be looked upon as essentially an export oriented unit and its future expansion organised on that basis.
- 5.46. When considering the desirability of PIL's proposed exports, note has to be taken of the point raised by certain objectors that at least to some extent these exports will be at the cost of the exports that some other Indian manufacturers are or will be effecting. It was pointed out that *Philips* having a much better brand image in the world market, when products are available in export markets under that brand name and sales effort is undertaken by the Philips organisation, other Indian manufacturers are bound to find the going difficult. An example was mentioned of an order for FT lamps which was shifted from another Indian manufacturer to PIL, even though the latter's

price was a little higher. The representatives of PIL however pointed out that this happened in the case of an Eastern European country so that there was no question of a local Philips organisation having influence, and the purchases were made by the State Trading Organisation of that country so that the brand image would also play a smaller role. It was claimed that the order was placed with PIL after the trading organisation of that country had made its own quality tests and, on that basis, preferred PIL's products even at higher price. We have already pointed out that, with the technical assistance that PIL obtains from its parent organisation and also the importance for Philips organisation the world over to maintain certain quality standards, PIL has maintained appropriate standards of quality regarding its products and this is bound to help it, though the brand image is an added advantage. To the extent that India has permitted subsidiaries of multinational companies like Philips to develop and operate in India, the obviously appropriate course would be to use them for developing quality products as a spur to other Indian producers, and at the same time use their foreign association for developing exports specially in products where such exports appear to be economically worth building up on a long term basis:

- 5.47. PIL has pointed out that the exports which it is making and proposing to make are denfitely worthwhile. It has been claimed that the Company has been making an increasing export effort. During 1974, the representatives of the Company pointed out at the public hearing, "our-exports amounted to Rs. 3.4 crores f.o.b. which amount exceeds the total outflow in foreign exchange from the Company in respect of dividends, T.A. fees and even raw materials required by our 7 factories. This means, that we are already a nett foreign exchange earner. With the implementation of this project, when approved, and with the other projects referred to earlier our nett foreign exchange earnings would be sizeable."
- 5.48. In this connection, the Applicant Company has submitted to the Commission data regarding foreign exchange inflow and outflow from the proposed project. The balance is indicated in the following table:

TABLE 58

Net inflow of Foeign Exchange from PIL's proposal for the first five years

Source: Applicant Company.

It should be noted that the inflow and outflow are related only to the direct results of the proposed project. The outflow arising from additional profits which the Company would make from which the foreign shareholder may obtain additional dividends, has not been included in this calculation. We shall revert to this aspect later.

Exports by Multinationals

5.49 All these calculations about the worthwhileness of exports, especially for the future, depend for their validity upon whether the assumptions made, especially regarding the prices to be realised from exports, are found to be valid in practice. Past record shows that exports have been effected sometimes at prices far lower not only than domestic prices but even ex-factory costs of production. On the one side, an exporter must have adequate flexibility so that in order to meet unforeseen competition or to make an entry into a difficult market he should be able to charge a low price if he finds that necessary. Normally a producer will not

^{*}Based on f.o.b. prices of Rs. 0.75 for GLS lamp and Rs. 3.25 for FT lamp.

charge uneconomically low prices for a large part of his exports over a long period because that would involve him in losses which he may not be able to balance from the surpluses made in the domestic market. At the same time, a foreign controlled undertaking may find it worthwhile as a part of its global strategy to export from a given country at lower prices and permit its subsidiary in some other country to reap the profits. There would be specially an inducement for such behaviour if there are restrictions or disincentives regarding remittances from some countries but not in others. Any attempt to check such practices may however lead to rigidity in procedures which may obstruct the export effect. Looking at the overall record of exports and the high cost that has had to be paid sometimes for earning foreign exchange, we have thought it necessary to draw Government's attention to this possibility. This is not to say that any such behaviour is necessarily to be suspected in the particular case that we are examining. We do hope however that the concerned authorities will give thought to this aspect of export promotion and devise some suitable checks.

More and Longer Exports by PIL

5.50 One of the questions that inevitably arises in examining the 'present proposal is why PIL, with all the special advantages it enjoys in effecting exports, should not agree to export a much larger part of the output arising from its expanded capacity or even make the whole expansion project export oriented. In its written reply to the Commission, the applicant Company has stated on this point:

"As an Indian organisation which has made its contribution to the Industrial Development and more particularly to the lamp and lamp component industry it is our desire to continue to participate in the growing market in the future also."

"Under the industrial policy of the Government of India dated 2.2.1973, foreign concerns such as ours are ordinarily excluded from industries not included in Appendix 1, exceps where the production is predominantly for exports. The present project is predominantly for exports and in the context of the total market requirement in the country for lamps the additional quantity of 40 per cent that we would be selling in the local market in addition to our existing volume will be small and is not likely to affect others. Moreover, while theoretically, it may be possible for us to find market for the entire additional production proposed under the envisaged production, economic considerations do not allow us to consider exports about the level of 60 per cent."

5.51 In explaining what the economic considerations are, PIL's respresentatives said at the public hearing:

"You are aware that our exports of lamps have been made at a loss. It is well-known that in the Light Engineering Industry such losses have to be reckoned with, particularly in the initial stages. In our attempt to establish ourselves in these non-traditional lines it becomes necessary for us to do so on an internationally competitive price basis. We beg to submit that in export., profit and loss is not one of simple arthmetics."

- 5.52 What is implied is that, as exports have to be effected at a loss, exporting more than 60 per cent of the expanded output may be found to be uneconomic. Export prices being lower that the domestic prices, sometimes lower than ex-factory cost, would mean losses. At the same time, we have also to take into account the very substantial incentives that the Government provides for ex. ports. The most important are cash benefits, duty drawbacks and the import entitlement. The duty drawbacks can be quite significant though computing them may present certain difficulties-PIL has mentioned that it has not been claiming some of the drawbacks in the past as these were of small amounts; but as their export increases, it will be important to calculate and claim them. Import entitlement of 30 per cent on the export of GLS lamps and 40 per cent on FT lamps is of great value as it enables the exporter to import raw materials, components, etc. for the production of profitable items. That these incentives are important is indicated by the fact that, since these incentives have been provided, every leading manufacturers appears to be making an attempt to effect some exports. While it is not possible to calculate in financial terms the precise benefit that would result from the entitlements, these to some extent offset the losses, and therefore make exports more worth-while.
- 5.53 Losses on exports will also be offset by profits on domestic sales if domestic prices are higher than those prevalant in international trade. How much domestic sale would be necessary to balance the loss on exports would of course depend upon the degree of loss that has to be sustained for effecting exports. The larger the loss at which the exports have to be effected, the larger will have to be the proportion of domestic sales to make up for the losses on exports. From this point

of view, as some loss in exports appears to be unavoidable in the export of electric lamps, to insist on a hundred per cent export obligation may make the expansion project uneconomic from the Company's point of view. At the same time as we have already seen, not only is additional output from PIL not necessary to meet the domestic demand in the coming years, but any prospect that such output will be placed in substantial quantities in the Indian market is likely to have a deleterious effect on the healthy growth and operation of the Indian lamps industry. A way has to be found steering clear of this dilemma.

5.54 The other question that is also raised in connection with the present proposal is whether the export obligation cannot be made effective for a period longer than five years. In one of its letters written to the erstwhile Ministry of Industrial Development and Internal Trade, dated September 2, 1971, the applicant Company had stated:

"While our Associates have indicated that subject to the conditions of international market they hope to purchase from us lighting products beyond the period of 5 years, they have expressed their inability to guarantee any value or quantity beyond this period. In this connection, they have pointed out that almost all the countries in the world are equipping themselves with lamp making capacity and as a consequence it is difficult to foresee the pattern of demand 5 years hence. They have however assured us their support in sustaining our exports."

Clarifying the same point further to the Commission, the Company had stated in February, 1975:

"At the conclusion of the five years period, if we are unable to sustain our export performance, we shall approach the Government for a further review on the disposition of this capacity."

Another point that had been made on behalf of PIL had been stated as follows:--

"We cannot visulise the state of the international market, currency relationship and other various factors which affect exports beyond the period of 5 years and as such commitment beyond the period of 5 years would not be realistic".

5.55 The Commission appreciates that in a situation so much fraught with uncertainties as exists in international markets, it is difficult to forecast what exactly would be the demand trends and how exports of particular commodities would fare. As against this, two cosiderations are in our view important. The first is that, even with the additional quantities that are now being contemplated for export by PIL, the share of India's exports in the total world exports of electric lamps would be quite small and therefore the demand for Indian exports can be treated as largely inelastic. Sustained Indian exports should be possible in spite of fluctuations in the world market. Secondly, and this is much more important, Philips (Holland) with its associate organisations in various parts of the world and its overall share in the world market would be certainly in a position to maintain exports from PIL in a sustained manner even if there are some fluctuations in the world market, as these would constitute a small proportion of its total world exports. It is of course true that, if some unprecedented and unexpected change takes place, the matter will have to be redically reconsidered. But normally, with the level of Indian exports being as low as is envisaged at present in relation to the world market, there should be little difficulty in PIL being able to obtain an underwriting from its parent company regarding exports for a ten year period. Such extension of export obligation period would be in keeping with what we understand is the Government policy regarding export obligations of foreign subsidiaries in India. At the public hearing, the Commission's attention was drawn to a circular issued by the Ministry of Foreign Trade* in 1971 which, inter alia, states as follows:

"Where, however, export obligations had been imposed as a matter of Licensing Policy (as for example allowing firms belonging to or controlled by Larger Houses or foreign subsidiaries in fields other than core investment and heavy investment sectors) and/or where substantial foreign investment was involved, the duration of export obligation should be for ten years in the first instance with a proviso, in the agreement itself, to the effect that export obligation would be renewable, at Government's option, for further 5 years period."

In view of this it would not be inappropriate if the export obligation in this case is made effective for ten years instead of five.

5.56 Another important consideration in asking for a ten year export obligation would be that this would considerably reduce the opposition of other Indian lamp—manufacturers to the pro-

^{*} Circular No. 6/1/70 TAEP dated the 30th April, 1971 by the Ministry of Foreign Trade.

posal. We have already indicated earlier in this Chapter that, looking at the demand prospects at least during the Fifth Plan period, there is little scope for any additional capacity. This is especially true about a unit with special competitive advantages like PIL. The fear that such a unit be able to increase its supplies in a market that will not be expanding very much cannot but have, as we have mentioned earlier, a discouraging effect on the entry of new units in the industry. Any fear that at the end of a five year period it is not unlikely that the whole additional production will be available for sale in the domestic market can also have a similarly deleterious effect. From this point of view also, it would be appropriate if the export obligation is made effective for a period of ten years.

Exports of Components

5.57 In the original proposal made in 1969 and supported by Philips (Holland), it had been indicated that the exports will consist not only of GLS and FT lamps but also of components of the lamps. The present proposal however is confined to the export of lamps, and the export of components has been left out. In the discussion about the proposal, it had been suggested by some experts that, as a number of developing countries are undertaking the manufacturing of lamps, the development of component exports may be more useful in the long run. The applicant Company's comments on this aspect are reproduced below:—

"It is our submission that India should pursue the policy of setting exports of lamps and components simultaneously. The reasons are as follows:—

"Before we can formulate strategy whether to export lamps or components or both, one has to understand and identify the components and the customers for these lamps and the customers for components. Without appropriate identification of these factors it would be difficult to come to any conclusion. So far as components in general are concerned, it is universally recognised that it is the component which influences the quality of the end product. Thus components are used by lamp manufacturers in different countries which are invariably set up by international lamp manufacturers who have the requisite capacity to meet the raw materials requirements at highly competitive prices coupled with technical assistance in the application of these components to make a lamp of good quality. Moreover, there is considerable development work taking place in basic technology of components which would influence the trend of demand for these components.

"The components buyers being lamp factories are very stringent in prescribing specifications and maintenance of quality and delivery discipline. It is not often realised that particularly in the field of lamp industry, some of the components have to be critically matched to the machine in which these components are used in the manufacturing process. A lack of awareness of this aspect has resulted in serious problems. To given an example the length of filament for the same voltage and wettage would differ considerably when used on different machines supplied by different manufacturers.

"Exporting a lamp would fetch, us higher foreign exchange earning than the sum total of components and in components there are only a few components where some reasonable export volume can be built up.

"When identifying specific components for export, we can rule out the export of Glass Shells since it is volume intensive and the existing production methods in India are not comparable to the process used elsewhere. For producing Glass Shells with a capacity of 300 million per machine there is a well known process called Ribbon Process. This is adopted in most of the developed countries and are as a consequence able to offer substantially lower prices.

"Tungston filaments, fluorescent powder, lead glass and caps are components which could be considered for exports provided these are to be supplied on a long term basis to established lamp factories with whom some form of technical link could be established with clearly defined specifications, and when production volume of these components could be built up to international standards.

"Simultaneously, it should be our endeavour to develop the export market for lamps. Here again, we will have to identify the geographical areas which have to be covered and the specific types of lamps that are required in these areas.

"Although it is conceded that in some countries lamp manufacturing activities are being established, these are essentially normal General Lighting Service Lamps and not the special type of incandescent lamps or Fluorescent lamps. It should, therefore, be our endeavour to

make a proper product identification in addition to the market identification to secure a long term export market. There are, in the lamp field certain products for which India is in an advantageous position.

"It will thus be seen that in the long run it will be a better proposition for India to promote the export of not only components, but also lamps since this has an advantage that we would earn more in terms of foreign exchange and secondly we would get the maximum possible earning as long as it is possible and thirdly to continue on a long term basis by identifying special type of lamps for which India would be able to meet the demand for a long time to cover the requirements of specific geographical areas."

5.58 In further discussion with the Commission, the applicant Company pointed out that it is examining the prospects of producing certain components on an export oriented basis, and that it will be applying to Government separately about those schemes. In any case, the present proposal does not envisage the export of components.

Scheme of Finance

5.59 It has already been pointed out in Chapter II that the Applicant Company has stated its financial requirements for the proposed project as follows:

		I	Rs./lakhs
Building			9.00
Plant & Machinery	(Care)		175.00
Working Capital			184.00
Raw material			170.00
	To	TAL :	354.00
	11 14 1 (17)		

5.60 It has been further stated that the capital requirement can be met from the internal resources of the Company. The foreign exchange of about Rs. 150 lakhs, required for the import of capital goods, is proposed to be met from Dutch credit or other Government approved sources.

Amount available from Internal Sources

5.61 It has been stated by the Applicant Company that its retained earnings and share capital are far in excess of fixed assets. The balance available from the retained earnings is being utilised temporarily for financing part of the working capital and the same can be put into use to finance the cost of the project under reference. Even if the new project is financed entirely by increasing loans and borrowings, the equity/debt ratio, based on the figures for 1973, would only increase to 1:0.36 which is within reasonable limits. The position of the Company in the last few years regarding its own capital and borrowings has been as follows:

TABLE 59

Year		Equity & Reserve			Loans & Deben- ture Stock	Ratio of Col. 2 to 3		
				Rs./lakhs	Rs./lakhs	_÷		
1969	•			902.82	784.49	1:0.87		
1970				1,053.61	1,027.58	1:0.97		
1971	•			1,341.95	490.13	1:0.37		
1972				1,581.12	481.89	1:0.30		
1973				2,128.04	417.23	1:0.20		

Dilution of Foreign Equity

- 5.62 The Government has already laid down certain guidelines for reducing foreign holdings in foreign majority companies. Under these guidelines, in the case of PIL, the Company will have to issue additional equity capital to the extent of 25% of the estimated cost of expansion and this will have to be issued only the Indians. On this basis, of the additional capital requirement of Rs. 184 lakhs required for fixed assets, 25% i.e. 46 lakhs, will have to be raised by way of additional equity inclusive of premium. The market value of a Philips India share of the nominal value of Rs. 10/- at present exceeds Rs. 25/-. Therefore, fresh equity of the nominal value of not more than Rs. 23 lakhs will have to be issued for this purpose. This will merely bring down the foreign equity from the present 60% to about 59%. This will hardly make any difference to the effect control exercised by the foreign equity holders over this company. That however cannot be avoided under the present policy of the Government of India. The Company will therefore continue to be under the control of Philips (Holland).
- 5.63 We have already examined in Chapter I the results of PILs operations upto now and showed how there has been a very large outflow of payments to the parent Company. It has also been indicated that the contribution made by Philips (Holland) has been repaid three times over even if we take into account only the dividends that have been remitted abroad. In addition, large reserves have been built, a part of which has been capitalised through the issue of bonus shares, the latest issue of bonus shares having been made in 1974 in the ratio of one new share for one old one.
- 5.64 The impact on foreign exchange inflows and outflows arising out of the proposed expansion project has already been described in the previous Chapter. The data supplied by the Company about expected financial outcome of the proposed project during the initial five years are given in Table 60.
- 5.65 It may be observed that the Company will make a profit after tax of over Rs. 14 lakhs from the third year onwards out of which the foreign parent company will obtain a share of over Rs. 8 lakhs. It may be noted that this additional profit will accrue without any additional investment being made by the existing shareholders including the foreign parent company.

TABLE 60

The likely share of profits of the foreign shareholder in the expansion

सत्यमेव जयते

(Rs./lakhs)

	-			1st year	2nd year	3rd year	4th year	5th year
Profit(±)/Loss(charging inte		Before	e					
Exports .				() 15.10	() 30.40	() 37.10	() 37.10	() 37.10
Local Sales	•	•	•	49.10	94.70	117.50	117.50	117.50
Total Sales	•			34.00	64.30	80.40	80.40	80.40
Less Interest		٠,		24.00	32.60	36.70	36.70	36.70
Profit after inter	rest c	harge	s:	10.00	31.70	43.70	43.70	43.70
Income Tax and	d Sur	tax @	67 %	6.70	21.20	29.30	29.30	29.30
Profit after tax	•	•	•	3.30	10.50	14.40	14.40	14.40
* Share of the f holder@60	oreig	n sha:	re-	1.98	6.30	8.64 8.50	8.64	8.64

^{*}Calculated by the M.R.T.P. Commission.

Source: Applicant Company.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

- 6.01 Our analysis of the proposed expansion project in the context of the present structure of the electric lamps industry in India and the objectives of Government's economic policy, broadly suggests the following basic considerations:
 - (i) There exists an oligepolistic situation in the electric lamps industry in India, with PIL enjoying a specially strong position in respect of the production of lamps and, even more, its market share. If more competition and genuine Indian entrepreneurship and technology are to be encouraged in this industry, it is necessary that PIL's role in the domestic market must be limited in future. Unless this is done, new units, even if they are granted licences and letters of intent, may not come up, and existing medium scale units as well as units which have just come up may find it difficult to continue.
 - (ii) PIL has an important contribution to make to the economical operation of medium scale units by making available vital components at economical prices regularly. This also implies that PIL's capacity for the production of electric lamps should, as far as possible, be limited at a level smaller than the capacity sanctioned for the production of important components. A similar policy pursued for other large units will ensure a degree of competition in the components market which will be of benefit to the medium scale lamp manufacturers. If the present expansion proposal of PIL is approved, and it is not certain that licences/letters of intent granted to other component manufacturers are likely to materialise, the question of PIL's capacity for the manufacture of certain components like glass shells, tubing and filaments may have to be re-examined by Govt.
 - (iii) The same conclusion, that PIL's role in the domestic market and in the production of the final product—the electric lamp should be limited, is also indicate a by the consideration that only then may PIL show readiness to play a more positive role by way of providing technical assistance and collaboration to new lamp manufacturing units coming up in the country.
 - (iv) Such data as have been made available to the Commission suggest that electric lamps industry appears to be one where India would have a comparative advantage, at least in exports to West Asian and South East Asian markets. Because of its special advantages, PIL would be in an excellent position to pioneer the export effort and build up production of lamps—and possibility of components—on a long term basis for meeting world demand in a big way.
 - (v) The present expansion proposal will meet this requirement provided the proportion of exports from additional production is raised substantially—beyond what PIL has proposed. It would also be necessary and it seems quite feasible—to extend the period of the export commitment to ten years instead of five.
 - (vi) One of the difficulties in ensuring that the proposed expansion will on balance be advantageous to the country is that it is not possible to distinguish between the output produced by PIL with its present plant, and the output that would be produced from the proposed additional plant. Any system attempting detailed and continuous check on what output is produced by which machinery is bound to be unduly complex and unworkable. At the same time, PIL's past record has indicated that it is capable of producing a far larger output from installed machines than what is normally thought to be possible. The Commission also does not think it appropriate that the output from any given machinery should be artificially limited once the machineries are permitted to be imported and installed. That would be a waste both of capital and foreign exchange which are valuable and scarce resources for the Indian economy. The conditions that are imposed on the PIL should be such that they take note of these potentialities and at the same time suggest obligations which can be easily enforceable, avoiding the risk that substantial addition would be possible to what the PIL can place on the domestic market.

6.02 Taking into account all these various conclusions drawn from our analysis from the previous Chapters, it appears to us that PIL's expansion proposal should be accepted by Government only if it can be ensured that it is export-oriented in a far more intensive way than what is normally thought necessary. Special care has to be taken to see that no loopholes remain in the scheme approved which would create the apprehension in the minds of others, and specially the smaller and newer lamp manufacturers, that PIL would be able to make a substantial addition to what it is able to place in the domestic market. As we have already seen, with existing machinery, which is supposed to have a licensed capacity only for 8 million GLS lamps and 1.50 million FT lamps PIL has been able to obtain a production of over 23 million GLS lamps and over 4 million FT lamps in 1974. It is not unlikely that it would be able to produce much more something of the order of 27 million GLS lamps and 4.5 million FT lamps—from the present machinery, or at least there would be nothing to show that this has not been done. It has also to be noted that even if the original licensed capacity of PIL is regularised on the basis that Government is now considering appropriate, i.e., 11 shifts as compared to the original one shift, the installed capacity can only be regularised at 12 million GLS lamps and 2.25 million FT lamps. All output beyond this has to be treated as an increase which is based at least partly on unauthorised creation or maintenance of capacity, though a part of it has also to be ascribed to greater efficiency and productivity. It has also to be noted that out of the existing output exports of FT lamps to the extent of almost one million have already been effected in 1974 while there has been little such export of GLS lamps. Even from the existing output, it is necessary that the present export of FT lamps must be maintained and this should have nothing to do with the proposal under consideration. It is also necessary that some part of the existing GLS lamps production should be exported. This is necessary because GLS lamps is the area where the newer and medium scale producers are in a position to develop production and where undue competition from a well-entrenched giant like PIL can and do create difficulties for them. Some limitation on PIL's domestic sales even from its existing output by way of an export obligation therefore is called for. Such an approach would also be appropriate in view of the fact that as early as 1962, the Government had laid down* when approving a foreign exchange loan that PIL should attempt, as part of its overall development and operations, to undertake exports to the extent of 1 to 20% of its total output. PIL has not been able to do this and Govt. appears to have been unable in the past to insist on this. PIL has also failed to use the opportunity provided by its parent company in 1969 by assuring that it would underwrite a certain quantum of exports from its production for five years following 1969. There was even a mention in that letter of Philips (Holland) having to make other arrangements for meeting their world supply requirements in case PIL failed to make such supply for export available. It is a pity that, instead of utilising this opportunity to effect exports and earn valuable foreign exchange, PIL just waited for the expansion proposal to be approved before cashing on the assurance given by its parent company. Its failure to do so should not given it an advantage, and some export from the existing output must be ensured. We understand that Government also is generally inclined, when regularising extra capacity that is found in many units to look favourably on the matter in case the additional capacity can be made export oriented. We hope, therefore, that Government will keep this aspect of the matter in mind when deciding on the regularisation of the existing capacity of PIL in the field of electric lamp manufacture. We would like to draw Government's attention to this especially in view of the fact that one of the major objections to the present proposal is that a part of the additional production of GLS lamps will be placed. on the domestic market and it is feared, especially by smaller and newer entrepreneurs, that this will hit them adversely. Neutralising at least a small part of PIL's existing production of GLS lamps, by insisting that 15% of the existing extra output-over the capacity of 12 million GLS Lamps. should be exported, would therefore be of importance in the context of the present proposal.

6.03 As regards the expansion proposal, PIL had asked for an additional capacity of 9 million GLS lamps and 2.25 million FT lamps on the basis of maximum utilisation of plant and machinery. At the same time, it has proposed the installation of two chains for the production of GLS lamps and one machine for the production of FT lamps which, as explained in earlier Chapters, appear to be potentially capable of an output of 20 million GLS lamps and 4.5 million FT lamps. PIL itself has contemplated the production of 16 million GLS lamps and 3.5 million FT lamps from the third to the fifth year of the new project. PIL representatives have also offered to give a guarantee that the outputs from the new machine will not be permitted to exceed these limits. For reasons already explained earlier, the Commission would not like any such guarantee which in effect means waste of installed capacity and productive potentiality. What the Commission has concluded is that the proposal should be made as much export oriented as possible, drastically keeping down the additional sales by PIL on the domestic market. In our view, this can be achieved by raising the export obligation of PIL to 75 per cent of the additional output both in respect of GLS lamps and in

^{*} See Appendix VII

respect of FT lamps. We realise that this is somewhat more than the proportion normally considered necessary for a project to be treated as export oriented. We think that such an increase is justifiable in this particular case. Unless this is done, the proposal may not be worth supporting in terms of the objectives of the MRTP Act. It will the discourage new enterprises and help the growth of concentration of economic power to the common detriment. For similar reasons, we also think it appropriate that the export obligation should extend to ten years in this case.

- 6.04 It has already been explained earlier why it would be difficult physically to distinguish between output produced by existing machines and the output produced by the new machines. Moreover, it is only proper that different machines should be utilised as a part of the overall plant for the most economical production of different types of lamps. This however creates the problem of what can be taken to be the increase in production arising out of the expansion proposal, and what may be termed as the production achieved without the expansion. The best way of deciding this would be to take the output of GLS-lamps and FT lamps produced in 1974 as the basis for distinguishing between production before and after expansion. Any output beyond the production level of 1974 shuld be treated as arising from the expansion. We have already indicated why we think that some export obligation regarding the existing output should be imposed. PIL is already exporting somewhat over one quarter of its production of FT lamps. This should be maintained. In view of the export objective laid down for PIL in 1962, it would be appropriate for Government to insist that at least 15 percent of the production of GLS lamps, over and above what may be considered to be the regularised capacity, should be exported. The Government may consider doing this when regularising the existing capacity of PIL. These exports from existing production should be independent of the export obligation from the expanded output.
- 6.05 We are not making any suggestion about the scheme of Finance assuming that the normal guidelines which would lead to some new issue of equity shares to the Indian public will operate in this case.
- 6.06 To summarise, we recommend that the proposed expansion of Philips India Limited for the production of GLS and FT lamps by installing two new chains for the production of GLS lamps and one new machine for the production of FT lamps may be approved subject to the following conditions:
 - (i) The actual output produced in 1974 will be treated as the pre-expansion output both in respect of GLS lamps and FT lamps, and any increase in output beyond this whether referable to the expansion or to the undertaking existing before expansion, will be treated as arising from the expansion.
 - (ii) Out of the expanded output, 75% both of GLS lamps (including special lamps) and FT lamps (separately) will be exported.
 - (iii) In addition to the export obligation set out in (ii) there will be an obligation to export annually FT lamps equal to the number exported in 1974 and this will also be treated as an obligation relating to the proposal for expansion.
 - (iv) The export obligation will be valid for a period of ten years.

New Delhi, Dated the 31st March, 1975

(Sd.) (JUSTICE J.L. NAIN)

(Sd.) (H.K. PARANJAPE)

(Sd.) H.M. JHALA

APPENDIX I

List of the Persons who attended the Public Hearing in the case of Philips India Limited on March 13 & 14, 1975.

S.N	o. Name and address		
App	licant Company		
1.	Shri V. Ramamurtham	Philips India Limited	
2.	Shri Vice Adm. B.A. Samson	do	
3.	Shri A.W. Hoolenaar	do	

					_		·
4.	Shri N. Khosla						Philips India Limited
5.	Shri P.R. Chari						—do—
6.	Shri S.B. Chitre						do
7.	Shri H.S. Mamak						do
8.							do
9.							do
10.							uo do
11.	Shri P.N. Srinivasan						
12.	Shri S.P. Ahluwalia						do
13.							do
14.	Shri R.P. Nambeyar						do
							do
15.							do
Gov	ernment Representatives						
16.	Shii G. Ramanathan	•	•	•	•	•	Deputy Secretary, Deptt. of Industrial Development, Ministry of Industry & Supplies.
17.	Shri V. Ahmad .	•	•	•		•	Development Officer, Directorate General of Technical Development.
18.	Shri S.N. Banwet		_			THERES	—do—
19.	Shri D.B. Malik .				C315		'—do—
20.	Shri B. Majumdar	-	•	- 3	2.50	9	Industrial Advisor, Development Commis-
21.	Shri A.N. Ghosh .	•	•	•			sioner Small Scale Industries, New Delhi.
21.	Snri A.N. Gnosn .	•	•	•	Shift.		Director, Small Scale Industries, New Delhi.
Part	icipants				y // i	Ni	(T
22.	Shri G.K. Shankar		•				President, Tamil Chamber of Commerce, Madras.
23.	Shri H.K. Mitra .		•			8	All India Small Scale Lamp Mfg. Association, Calcutta.
24.	Shri S.P. Chatak				सद्यमे	ाव ज	
25.	Shri A. Banerjee	-		•			do
26.	Shri T.C. Sinha .	•	•	•	•	•	
27.	Shri A.S. Bolar .	•	•	•	•	•	Indian Lamp Factories Association, Calcutta.
28.	Shri P.N. Banerjee	•	•	•	•	•	Bengal Electric Lamp Works Ltd., Calcutta.
29.	Shri Trelochan Singh	•	•	•	•	•	—do
	~		•	٠	•	•	Sylvania & Laxman, New Delhi.
30. 31.	Shri V.V. Singh .	•	•	•	•	•	—do
	Shri G.A. Joshi .	•	•	•	•	•	Bijlee Lamp Works, Poona.
32.	Shri R.S. Saini .	•	•	•	•	•	do
33.	Shri S. Kumar	•	•	•	•	•	Toshiba Anand Lamp Works, Cochin.
34.	Shri K.A. Khan .	.•	•	•	•	•	Geep Flashlight Industries Limited.
35.	Shri P.H. Nagar	•	•	•	•	•	—do—
36.	Shri S.K. Agarwal	•	•	•	•		R.S. Traders, Bombay.
37.	Shri H.K. Gupta				•		Victor Lamp Corporation, Delhi.
38.	Shri Shanti S. Gupta				•		Light & Music Corner, Delhi.
39.	Shri S.W. Bensal	•					7/19, Daryagank, Delhi.
40.	Shri S. Vetrivale	•	•		•		Vulcan Industries, Madras. Standard Industries, Madurai.
41.	Shri V.R. Bhide				_		Victory Flask Pvt. Ltd., Bombay.
42.	Shri N.L. Dhawan				-	•	Crompton Greaves Ltd., New Delhi.
43.	Shri S.C. Dikshit			•		•	Bajaj Electrical Ltd., New Delhi.
44.	Shri M. Subdareswaran	ì		•	•		Caps & Caps Pvt. Ltd., Indore.
						-	t

APPENDIX II

List of PIL's Industrial Licence applications rejected during the past five years.

					195						
	Reasons for rejection	9	No Licencee under I (D&R) Act is called for since installed capacity of the plant & machinery has not been substantially increased.	The exact type of semiconductor devices proposed to be manufactured, not indicated. Further, the demand for. Transistors is limited and therefore no need to approve proposal for manufacturing these items.	That we have not implemented earlier capacity.	There is no scope for establishment of further capacity.	TV set manufacture is not in core sector. Firms with foreign majority equity are not allowed to take up manufacture of such items.	In view of licensed capacity in this manufacturing sector and of our actual production already in excess of our lamp making capacity.	The justifications furnished by us for issue of a COB licence have not been found convincing.	The item of manufacture is reserved for the Public Sector under the Indus- trial Policy Resolution.	
Confirm I was a second	Rejected vide	5	Letter dated 26-8-69 from Ministry of Industrial Development	Letter dated 7-12-73 from the Ministry of Industrial Development (SIA)	Letter dated 14/26-7-70 from Defence Ministry	Letter dated 10-6-70 Ministry of Industrial Development	Letter dated 7-12-73 from Deptt. of Electronics.	Letter dated 2-2-72 from Ministry of Industrial Development	Letter dated 6-1-73 from Ministry of Industrial Development.	Letter dated 18-5-74 from SIA	
<i></i>	Particulars of the product	4	Lighting Fittings ballasts, Lamp holders and starter holders	Semi-conductor Devices	IF/RF Coils (Miniature)	Domestic Refrigerators	T.V. Receivers	Glass Shells for Electric Lamps.	Ballasts for Fluorescent Lamps (COB)	Transistorised Mine Detectors (COB)	
	Applied to	3	7-10-67 Ministry of Industrial Development	ор	op	op	op	op	op	op	
	Date of Application	2	7-10-67 Mir	19-3-69	7-5-69	22-8-69	13-7-70	16-9-70	14-10-70	12-10-70	
	SI. No.	-	-	63	%	4	ŗ.	9	7.	ထိ	

APPENDIX II—Contd.

	vely vely us.	ment Publ	lly indicady extronics chance	najority ea.	communi- companies Industrial	ishment		ad who now for foreign n colla- isidered	ad who tow for foreign n colla- isidered	broad who w-how for for foreign eign colla- considered created in of items below the
9	The type of equipment proposed to be manufactured is comparatively of simple type and is already being manufactured by small entrepreneuss.	The manufacture of this equipment is reserved exclusively for the Public Sector.	This is an area in which wholly indigenous companies who are already experienced in the field of electronics could take up if given a chance, and therefore, it is not considered	necessary to allow a ioreign may company to enter this soft area.	In the field of TV and Tele-communication, foreign majority companies are not being granted Industrial Licences.	There is no scope for the establishment of further capacity.		There are many companies abroad who can provide technical know-how for this items without the need for foreign equity and that allowing foreign collaboration for this item is not considered necessary at this stage.	There are many companies abroad who can provide technical know-how for this items without the need for foreign equity and that allowing foreign collaboration for this item is not considered necessary at this stage. Adequate capacity has been created in the country.	There are many companies abroacan provide technical know-buthis items without the need for fequity and that allowing foreign boration for this item is not consnecessary at this stage. Adequate capacity has been creathe country. The present production of applied for was much belo licensed capacity.
	The man simp factu	The marker reserve Sector.	This genc perion coult	nece	In the cation are Lice	Ther of fi		Ther can this equipora		
5	Letter dated 18-12-73 from SIA.	Letter dated 25-1-73 from Deptt. of Electronics.	Letter dated 31-12-73 from SIA.	É	Letter dated 17-12-73 from SIA.	Letter dated 20-7-73 from Ministry of Ind. Dev.		Letter dated 31-12-73 from SIA.	from SIA. from SIA. Letter dated 29-11-72 from Ministry of Industrial Development.	from SIA. Letter dated 31-12-73 from SIA. Letter dated 29-11-72 from Ministry of Industrial Development Letter dated 21-9-72 from Deptt. of Electronics.
	Letter date from SIA.	Letter d from D tronics.	Letter da from SIA	Second Second	Letter date from SIA.	Letter of from No.	Lottor	from SIA.	from S from S Letter from Industi	from S from S Letter from Industifrom I from from from from Industifrom I from I nics.
4	Digital Electronic measuring Instts.	Mobilophones	Professional Intercommunication systems and equipment.		Electronic Distribution systems and Components thereof.	Electronic Automatic controllers.	Small D.C. Motors.		Welding Electrodes (Fuller utilisation of capacity).	Welding Electrodes (Fuller utilisation of capacity). Industrial Measuring and control Instruments (Fuller utilisation of capacity).
3	Ministry of Industrial Develop- ment.	—ор—	op		op	op	op		-op-	- op - op -
5	3-11-70	14-11-70	11-10-71		28-2-72	6-3-72	8-3-72		3-4-72	3-4-72
-	6	10.	11.		12.	13.	14.		15.	15.

This item is suited for development by medium level entrepreneurs.	Some of the items for which enhanced capacity was being sought were being produced in the Small Scale Sector.	We have been able to achieve so far a production of about 25% of the licence was issued more than 10 years ago.	This is being manufactured in the Small Scale Sector without any collaborations.	There is no scope for approving any further capacity for the manufacture of tungsten filaments at present.	1		
Letter dated 17-12-73 from SIA.	Letter dated 29-11-72 from Deptt. of Electronics.	Letter dated 11-10-72 from Ministry of Ind. Development.	Letter dated 17-12-73 from SIA.	Letter dated 1-2-74 from SIA.	The application was rejected on 1-2-1974. The company made appeal on 6-3-74. The application has again been rejected.	The application was rejected on 1-2-1974. The company made appeal on 6-3-74. The application has again been rejected.	
Tape Deck Mechanism	Loudspeakers, Carbon Potentio- meters; Paper Cones for Louds- peakers and Trimming Capa- citors. (Fuller utilisation).	Infraphils (infra-red Therapy Apparatus) (Fuller Utili- sation).	Compact Cassettes	Tungsten Filaments and Molybdenum Wires	Tungsten Wire	Molybdenum Wire	
op	cp	op	op	op	op	op	Locat Company
2-5-72	18-5-72	21-6-72	7-9-72	11-9-72	30-8-72	30-8-72	1
18.	19.	20.	21.	22.	23.	24.	

27—8 MofLJ&CA/ND/79

Source: The applicant Company.

APPENDIX III

Names and Addresses of the Objectors

Government Agencies

1. Development Commissioner, Small Scale Industries, Nirman Bhavan, New Delhi.

Associations

- 2. All India Small Scale Lamp Manufacturers Association, 100/1/A, Belighata Main Road, Calcutta-10.
- 3. Indian Lamp Factories Association, P-11, Mission Row Extension, Calcutta.

Large Scale Units

- 4. Bijlee Products India (P) Ltd., 70, Headapsar Industrial Estate, Poona.
- 5. Pradip Lamp Works, Jay Krishna Road, Patna.
- 6. Sylvania & Laxman Ltd., 68/2, Najafgarh Road, New Delhi.
- Bharat Electrical Industries Ltd.,
 Rajindra Nath Mukherjee Road, Calcutta-1.
- 8. Geep Flashlight Industries Ltd., 28, South Road, Allahabad.
- 9. The Mysore Lamp Works Ltd., Old Tumkur Road, Malleswaram West P. O., Bangalore.
- The Bengal Electric Lamp Works Ltd.,
 4, Fairlie Place, Calcutta.

Distribution and Marketing Companies

- 11. Mazda Lamp Company Limited, 225-D, Acharya J.C. Bose Road, Calcutta.
- Crompton Greaves, Kamjin, Bhandrup, Bombay.
- Bajaj Electrical Limited, 45-47, Veer Nariman Road, Bombay

Parties Issued Letters of Intent

- 14. Gwalior Lamp & Electrical Ltd., 15/1, Asaf Ali Road, New Delhi.
- Ajay Electrical Industries Ltd., 15/1, Asaf Ali Road, New Delhi.
- 16. H.M.T. 36, Conningham Road, Bangalore.

Small Scale Units

- 17. Noble Electric Lamp Works, 35/10, Belgachia Road, Calcutta-37.
- Sudip Electrical Works,
 Salimpur Lane, Guptapra, Bhakuria, Calcutta.
- 19. Shyamsundar Electric Lamp Works, 193, Malarshi Debensha Road, (1st Floor), Calcutta.
- 0. Unique Electrical Works, 12B, Raicharan Pal Lane, Calcutta.

- 21. Sinha Industries, 38, Selimpur Lane, Dhakuria, Calcutta-31.
- 22. Awres Enterprises, P-334, Parnasree Palley, P.O. Parnasree, Calcutta-60.
- 23. Bindore Electrical Industries (P) Ltd., 22-A, Orphanjunj Road, Calcutta.

Individuals

- 24. Shri S. Mukerjee, 24/1B, Biswas Nursery Lane, Calcutta.
- Shri J.M. Debts,
 C/o M/s. Frontia Engineering,
 Pan Bazar,
 Gauhati.

APPENDIX IV

A Note on N.V. Philips' Gloeilampenfabrieken

- 2. In 1972 and 1973, Philips, Holland was the thirteenth largest company among the fifty largest industrial companies (ranked by sales) in the world. During the same period it ranked third (in terms of sales) among 300 largest industrial companies outside the USA. Philips, Holland, is the single largest electrical company outside the U.S.A.. Its total annual assets and sales at the end of 1973 were valued at \$ 8.56 billion and \$ 8.11 billion respectively. The net income at the end of the same year amounted to \$ 323.10 million.⁵
- 3. Philips (Holland) established its first company outside the Netherlands in 1919. By 1930 it had established 27 companies in as many countries, including one in India, in all parts of the

^{1.} Facts about Philips, N. V. Philips' Gloeilampenfabricken Eindhoven, the Netherlands, 1970. P.8.

^{2.} Philips of Eindhoven, Fortune, June, 1945.

^{3.} Facts about Philips, Op. cit., p. 14.

^{4.} Evaluation and Adaptation at Philips: a Case Study, Multinational Business, Economist Intelligence Unit, February, 1972, p. 47.

^{5. (}i) The Fifty Largest Industrial Companies in the World (Ranked by Sales), Fortune, August, 1974, p. 185 and (ii) The 300 Largest Industrial Companies outside the U.S. (Ranked by Sales), Fortune, August, 1974, p. 176.

world though mostly in Europe. At present Philips (Holland) has organisations in about 65 countries and it undertakes manufacture of goods in about 50 countries. Besides the more than sixty countries where a Philips National Organisation is established, there are some others where there is no such organisation, or, at least, not yet. Nevertheless, Philips, products are sold in those countries. It has 37 GLS lamp and 23 FT lamp manufacturing factories located in different countries.

- 4. Its operations in several countries are much bigger than its volume of business in the Netherlands market. "The various Philips Industries Companies in the U.K., for example, have sales almost twice as large as Philips' Dutch market, at about \$ 750 million. The Philips Company in West Germany is of approximately similar size."
- 5. In its own words: "Philips (Holland) may rightly be called a highly integrated multinational operation............ Its basic uniqueness in the business world and as compared with other big companies lies in the fact that it has no "home market" of any size. The Netherlands is a well developed but very small market. The company has always been obliged to seek its strength in exporting and to be truly international." It may also be noted that "by the end of 1969, the Concern (Philips, Holland) was employing some 300,000 people, more than two-thirds of them outside the Netherland." In 1973, the total employment in Philips group of companies was reported to be over 4,00,000 persons. In Philips "there are now over 20,000 products and product component assemblies whose worldwide distribution is coordinated from the Netherlands." Is
- 6. While Philips, Holland commenced its activities by producing, selling and exporting GLS lamps, it has diversi ed its activities to such an extent that by now it has emerged as a giant multi-product, multi-national electrical and electronics company producing hundres of products which include raw materials, parts and components and finished end-products. The end products range between light bulbs to computors. The major product-divisions of Company, under each of which are included dozens of products, are: lighting, domestic appliances, radio, gramphone and television equipment; electronic components and materials; electroacoustics; telecommunications and defence systems; data systems; industrial equipment; medical systems; Pharmaceutical—Chemical products; glass; music (joint venture with Siemens A.G.); and allied industries. "At the Concerns headquarters, in Eindhoven, Holland, Philips operates one of the world's leading research centres enabling the company to maintain its position as manufacturer of some of the most sophisticated electronic equipment available."14 According to Arthur A. Bright Jr., "of all the European Companies, Philips seems to have been the most outstanding in research and development. It pioneered in the design of photoflash lamps, in the use of heaviest ment gases for gas filled lamps, in machinery development, and in other directions of incandescent lamp design and production." ¹⁵ A research laboratory was founded in 1917. Among other things, its extensive as well as intensive R&D work has helped it to expand and diversify and at the same time bring about technological improvements continously. As an example, take the case of glass. According to Philips (Holland): "The Glass Development Centre was opened in 1958 to co-ordinate research and development in the glass filed. The latest innovation in the field of mechnising the production, of standard glass bulbs is the new factory in Lommel, Belgium, which was set up in conjunction with other European lamp manufacturers. In this factory, 40,000 light bulbs per hour are produced by one machine. With this production it will be possible to meet almost the entire European market demand for the most commonly used types of bulbs." The glass products division of Philips produces about 150 types of glass, principally for incandescent lamps and television screens. The R&D expenditure of Philips amounts to 7% of its sales 17 which is obviously quite impressive.
- 6A. Almost right from the beginning Philips did all it could to expand its business operations outside the Netherlands. "It (Philips) has long been a firm believer in cartels—like most European

^{6.} Jane's Major Companies of Europe, 1973, p. D167.

^{7.} Facts About Philips op. cit., p./57.

^{8.} Applicant Company.

^{9.} Evaluation and Adaptation at Philips, op. cit., p. 46.

^{10.} Facts about Philips, opt. cit., p. 38.

^{11.} ibid p. 22.

^{12.} The fifty Largest Industrial Companies in the World (Ranked by Sales), Fortune, August, 1974 p. 185.

^{13.} Evaluation and Adaption at Philips op., cit. p. 48.

^{14.} Products, Systems, Projects, N. V. Philips Gloeilampenfabrieken the Netherlands, inside cover)

^{16.} Facts about Philips, opt. cit., p. 20.

^{17.} Evaluation and Adoptation at Philips,, opt., cit., p. 47.

Corporations—and a dominant member of the cartel that controlled light bulbs internationally GE and its subsidiary, International General Electric, did not join the European Cartel but had with it tacit understanding. In radio, where markets are less organised, it tried persistently to gain a cartel-like control. In other fields it made deals to establish permanent and stable markets. Philips, in short, believed and fought for 'rationalised', 'regulated' trade through international agreements. It used every resource including research, patents warnings of legal action and vigorous sales promotion to increase its volume and profits. Indeed, so aggresively did Philips sell electrical goods that for twenty years even General Electric was afraid of it."¹⁸

- 7. Philips did not rest content with the cartel. It worked for, against and outside the carte. agreement as and when the situtation demanded to do so in order to safeguard its interests and ascendancy. "Peace (after the First World War) wrecked the price structure of the electrical industry. The international lamp cartel, loosely established in 1903 and tottering even before the War because of internal dissent, fell apart. Foreseeing this, Anton Philips in 1919 signed a patent agreement with General Electric, getting exclusive rights to exploit G.E. patents in certain European countries, sharing patent rights in others with competitors. Armed with this new weapon, Anton Philips hastened the dissolution of the old cartel with an aggressive sales campaign. Philips fought all the light bulb companies, chiefly the German lamp trust, Osram. He (Anton Philips) succeeded in selling huge quantity of lamps. By 1924 all the companies were ready to call quits; lamp prices were so low that there was no profit for anyone. According Philips joined Wilhelm Meihardt, of Osram and approached G.E. to discuss a new cartel. Out of the discussion came Phoebus S.A. Compagnie Industrielle pour le Development de l'Eclairage—whose chief functions were to police lightbulb prices and sales quotas and to promote the exchange of lighting research in all the world except the U.S. and Canada." A more or less similar example is provided by the Philips' (UK Concern) membership of Electric Lamp Manufacturers' Associate of the U.K. Although a founder member of the Association since 1933, it resigned from its membership in 1955—about a year before the association was dissolved. But it became a member of the successor association—Electric Lamp Industry Council—in 1957, the year when it was formed. G.E. of USA as usual, though not a part of the Phoebus (European Cartel) was not against it. Moreover, Philips, Holland entered into a separate agreement with GE to safeguard its interests. What is, however, significant to note is that all the while Phil
- 8. Safeguarding the interests of Philips (Holland) in all its operations all over the globe is the Kingpin of its management structure. In the words of Philips (Holland) "Viewed from outside, Philips is organised on a country-wise basis. Each national organisation, is primarily a sales organisation. As far as possible, they implement their own national policy.....Philips operate on an international basis, however, and so they consequently pursue a world-wide marketing policy. The Concern Centre (at Eindhoven) is responsible for formulating clearly these world-wide policies and for coordinating plans for the various N.Os (National Organisations). The Concern Centre deals with all kinds of subjects and problems relating to all goods and all countries. In the forefront stands world-wide coordination of production and sale of every product. Hence, the Concern is primarily organised on a product and not an (sic) a country basis....The concern Centre has been set up to promote Philips' success throughout the world and to ensure the unit of the world-wide organisation.....Continual, well organised contact between the Concern Centre and the managements of the N.Os. is of prime importance. To overcome this problem, N.Os. have a representative, an "Ambassador" at the Concern Centre. These "Embassies" are called Regional Bureaux, and consist of a number of small bureaux each promoting at the Centre the interests of one or more N.Os. The summit of the Philips Organisation is the Board of Management....This Board frames and formulates the enterprises' universal basic policy, appoints the Managers in the Centre and in various countries and is the final decisive authority.....The entire organisation has been welded into a powerful structure, playing a dynamic role in a swiftly advancing world socity." The fact that among the various Regional Bureaux established at Eindhoven India is the only country for which there is an exclusive bureau shows the importance which Philips, Holland attaches to this country in its world-wide op

^{18.} Philips of Eindhoven op. cit.

^{19.} ibid.

^{20.} ibid., pp., 38-42 and 55-59.

APPENDIX V

A Note on Monopolisation and Cartelisation in the Lamp Industry

The entire history of lamp industry has been dominated by two to three companies in each industrially advanced country. In the USA, General Electric Company (G.E.), and Sylvania account for an overwhelmingly large proportion of the total lamp market. The U.K. is dominated by British Lighting Industries Limited (a wholly owned subsidiary of Thorn), Philips, (Holland) and General Electric Co. Ltd. (GEC), Philips (Holland). A.E.G. (Germany) and Tungsram (Hungary) play domineering role in the European Market. In Japan and the Far East, the four most important companies are National, Mathushite, Hitashi and Toshiba-all Japanese companies. However, the two major lamp producing companies which dominate the world of lamps through their parent companies, associate companies and subsidiaries are G.E. and Philips. Their operations cover almost the entire world. They have emerged as giant multi-national, multi-product companies having the unmatched backing of, among other things, vast resources of finance, marketing, managerial and technical expertise and R&D. Arthur A. Bright, Jr., in his well documented book has stated the position of G.E. in the following words, which would be equally applicable to other giants like Philips: "Other elements in the supremacy of General Electric have centered in its tremendous size and strength in the entire electrical goods industry...A long history, a well known name, a reputation for good merchandise, an outstanding research laboratory, active product development, extensive advertising and sales promotion, excellent distributive outlets, vitally un-limited finances, long and favourable relationships with utilities and other major customers, close contact with leading fixture manufacturers—these and other relationships aided greatly in the pre-eminence of the General Electric lamp department."1

The image of original brand name (GE, Philips or Osram) has helped the largest producers to find ready market everywhere for lamps as well as other products. In this regard, we may quote from the report of the U.K. Monopolies Commission: "In the selling of lamps, although exclusive, dealing has long disappeared, the manufacturers of main brands still have a firm hold on the tradition channels of distribution. The reputation which the main brands have built up over the years makes their lamps readily acceptable to distributors and their customers, a newcomer with an unknown brand would have to offer a substantial inducement to offset this."

The smaller independent lamp manufacturing companies, be set with severe handicaps were not able to withstand the development of oligopolistic situation in the industry. This has happened in almost all industrial countries. In some countries like the U.S.A. the process of integration and domination commenced quite early in the 20th Century. What is, however, revealing is the fact that in some contries like the U.K., the process of domination by 3-4 companies has become more effective in the decades of fifties and sixties. "The tendency to monopolization in the lamp industry persisted in almost all leading industrial nations since the origin of the industry. Patents have been of crucial importance whether through direct patent monopolies as in the United States or through patent pooling and cartel arrangements as in the European nations." The growth of oligopolistic position in the U.K. has been described by the Monopolies Commission as follows: "Although in 1950 (in the U.K.) ELMA (Electric Lamp Manufacturers' Association) was a tightly knit ring which included the principal manufacturers, there were substantial lamp manufacturers outside it and it was estimated that the share of the total market held by independents was 20 per cent in respect of reference-type filament lamps and 41 per cent in respect of fluorescent lamps. In 1966 the share of the market in reference lamps of manufacturers who were neither members of ELIC (Electric Lamp Industry Council) which was formed by the former members of ELMI after its dissolution in the wake of coming into force of the Restrictive Trade Practices Act in 1956 nor controlled ELIC members was only 3 per cent. The controlled Companies (smaller companies controlled by bigger ones) share of the market (UK) also declined from 13 per cent in 1950 to 7 per cent in 1966 (only 3 per cent by value, since they make only the cheaper filament lamps)...(The Monopolies Commission has come to the conclusion that) since 1957 the principal manufacturers have absorbed all the independent competition that existed."4

¹Arthur A. Bright Jr. The Electric Lamp Industry; Technological and Economic Development from 1800 to 1947, 1949,p. 459.

²Second Report on the Supply of Electric Lamps—Part I, the U.K. Monopolies Commission, 1968, p. 18.

Arthur Bright Jr., opt., cit. pp 461 and 462.

Second Report on the Supply of Electric Lamps-Part I, Op., cit. pp. 16 and 19.

Another important feature of the lamp industry has been international cartelisation. "The international lamp Cartel was an European development. It grew out of the 1894 association of continental producers and was formalized in 1903... The outbreak of World War I disturbed the community of interest that had reduced internation competition in electric lamps, nevertheless, and the international agreements among the lamp manufacturers of opposing belligerents were terminated.... The international lamp cartel was revitalized after World War I mainly through the efforts of the Osram Company. The dislocation of normal trade during the War years had led to a considerable expansion of productive capacity in many countries, and Osram desired to avoid price competition from producers striving to hold their gains. Osram encouraged the formation in 1921 of the Internation Union for regulating Prices of Incandecent Lamps (Internationable Gluhlampen Preisvereinigung). This organisation, composed of the Osram Company and producers of Gentral Europe, together with N.V. Philips and a Swiss company, allocated markets and established prices and conditions of sale. Although British and American companies, did not at that time joint the cartel, in 1921 and 1922 Osram made bilateral agreement with the British and the American General Electric Companies regarding sales territories and other matters.

"Under the cartel, which customarily controlled more than 80 per cent of European electriclamp production, world markets were divided among the members. The industry of each country was normally allotted all or most of its domestic market and certain other areas throughout the world. Exclusive licences under the lamp patents controlled by the large companies provided the basis for the market sharing agreements. Cartel members also exchanged technical information and agreed upon prices to be charged in the various areas. The effect of the cartel was to pass technical advances from one country to another for the benefit of cartel members while international sales competition was held to a minimum....Since the allocation of territory by the cartel customarily gave to each nation its colonies as well as the mother country, only a few industrially undeveloped areas of the world remained free for competition by the large manufacturers."

While the General Electric Company of the USA never became a formal member of the European Cartel, it worked in hormony with it "through a long series of licensing agreements with the leading foreign companies, financial investments in them or both". According to the British Monopolies Commission "IGEC (International General Electric Company—a holding company for G.Es. everseas companies) made separate agreements with most of the parties which provided for the exchange of patents, and know-how, the preservation of the USA and Canada as the exclusive market of IGEC, the grant to other parties of exclusive rights in the respective home markets and the mutual grant of non-exclusive rights on common markets." For example, "GE and philips had an agreement whereby Philips was not supposed to market their products in USA, Canada and the entire Latin America, while philips got the exclusive right of marketing their products in Asia, Africa."

The post war (1914-18) developments with regard to cartelisation have been detailed by the British Monopolies Commission as follows: "The world market for electric lamps expanded rapidly after the end of the 1914—18 war, with greatly increased production capacity, and it was said that competition became 'cut throat' and dumping not uncommon. Negotiations between the world's leading manufacturers led to the conclusion in 1925 of an international agreements between continental manufacturers, and a little later also brought in the leading British manufacturers. This agreement was known as the 'Phoebus Agreement' from the name of the company, SA Phoebus Geneeva (Sa Phoebus ceased to operate in 1939 but due to lengthy law suit was not wound up until 1963) which was set up to administer the organisation. The agreement had two acknowledged main functions—the exchange of the patents and technical information, which was conditional upon adoption of common prices and terms, and the division of the world's markets in electric lamps. In persuance of these functions the parties agreed, inter alia, to preserve the existing pattern of trade by the allocation of percentage sales quotas to each party or local groups of parties based on past trading figures not to oppose each other's patents and to prohibit assistance to non-member manufacturers, including a policy of prohibiting or limiting the supply of components to non-members. A central sales Committee was set up to decide general sales policy and lay down principles for the determination of prices, terms and conditions of sale for the information of local groups which, in turn, were required, after conferring with the local distributive trade to fix the price schedules and terms and conditions of sale for their areas. Outside manufacturers could be acquired only for the joint account of the phoebus members: the parties did, in fact acquire a number of such business and sought to

Auther A. Bright Jr., opt. cit. pp.303-305 and 480.

²Second Report on the Supply of Electric lamps—Part II op. cit. P. 56.

meet outside competition by producing lamps in the factories to sell under brand names which were different from their own and prices which were lower than those of their own products. Special Committees were formed to direct these 'fighting companies', one of which, NV Splendor, had a selling subsidiary, Splendor Lamp Co. Ltd., in this country (the U.K.).

"One of the first action of the Phoebus organisation was to lay down the upper limits on the life of lamps made by members, with penalties for excessive life or short life. It was also laid down that no mention of 'long life' should be made in any advertisement, and the organisation opposed the introduction of any system of quality marking for lamps.

"The sales quota provisions one of the Phoebus Agreement were elaborate: briefly, each party (or group of parties) was allocated a quote in his home territory and in certain common territories. At the end of each period of 12 months total sales of all the parties were calculated in units for each territory; each party's quota for each territory was then determined by applying his already specified local percentage to that total. Each party's quota was compared with his actual sales to determine excesses and deficits. For the purpose of these calculations, a schedule was drawn up and revised annually which converted the many different types and wattages of lamps into unit values. The calculations involved the examination and tabulation at Geneva of hundreds of thousands of individual invoices remitted by the parties. Penalties were paid by those whose sales exceeded their quotas and compensatory payments were made to those in deficit. The orginal British parties to the agreement were GEC, the AEI Group (BTH, Ediswan, Metrovick), Simens (later absorbed into the AEI Group) and Cryselco (owned jointly by GEC and NV Philips).*

These formed the 'British Group' which was allotted a joint quota based on the aggregate sales of the six members and was responsible under the agreement for controlling prices and terms in the United Kingdom. The British Group made its own arrangements for sharing the joint quota and for penalising of compensating those in excess or deficit.

"Thus at the outbreak of war in 1939 the world's leading lamp manufacturers, apart from the Japanese, were associated in a tight network of agreements which effectively reserved home markets to home manufacturers, regulated competition in common markets and employed the ownerships of patents to induce independent manufacturers to enter into similar contracts involving quota restrictions and observance of agreed prices. The Phoebus Agreement and certain of the complementary agreements between individual manufacturers were automatically cancelled by the outbreak of war in 1939."

Patent rights on various types of lamps and innovations thereto and lamp parts, components and even machinery vested in giants like GE and Philips for along time have had a depending impact on the growth of independent companies. Most of these patents in one form or the other remained intact and legally valid from 1880 onwards to forties of the current century. This enable the giants to have control on the manufacture/supply of components and machinery. Almost right from the beginning the big companies started manufacturing raw materials, parts and machinery required for the manufacture of lamps on their own or in factories controlled by them. Even if some raw materials or components were manufactured by independent companies, the sheer size of giants always put the smaller independents, relatively speaking, at a disadvantage.

This is what Arthur A. Bright has to say about the position in this regard in the US: "General Electric supremacy in the lamp industry has also been extended by its control over lamp parts and machinery. The licensor has supplied almost all its own parts and equipment from low cost plants. It has filled the needs of its licencees for wire, bases, argon and machinery, while independent manufacturers have had to rely on outside suppliers or themselves for all but lamp bases. Since the independents typically served less than 10 per cent of the total market, they were almost inevitably at a great disadvantage in obtaining many necessary items, particularly machinery."

In the U.K. also the supplies of main components are controlled by the largest lamp manufacturing companies. This has been indicated by the UK Monopolies Commission in its Report. "Although lamp production is still divided between four principal manufacturers and several smaller ones, production of the main components of lamps, especially of filament lamps, is more concentrated.

NV Philips did not have at that time have a wholly owned British subsidiary; it later formed Philips Lamps Ltd. (Now by change of name Philips Electrical Ltd.) and acquired Stella Lamp Co., Ltd., both in of which jointed ELMA in 1933.

^{7.} Second Report on the Supply of Electric-Lamps Part II op., cit., p. 55-57.

^{8.} lbid., p.459

Most of the producers of these components are controlled by one or more of the pricipal lamp manufacturers, and the smaller lamp manufacturers as well as any potential new entrants to the industry, must rely on these subsidiaries, for supplies of essential components in order to be able to produce at competitive prices."9.

In addition to international combination of the largest manufacturers, mutual agreements understanding was evolved among the leading manufacturers within a country. In the U.S., GE had varied type of agreements with Westinghouse, Sylvania and even smaller independents. In the UK the arrangement has been & more formalised affair. "The principal trade association (in the UK) of lamp manufacturers which existed from 1933 until 1957 was the Electric Lamp Manufacturers Association (ELMA). ELMA operated a number of arrangements, including common maintained prices and discounts, collective sanctions and exclusive dealings, its members were parties to international agreements which included market and patent sharing arrangements." The members of ELMA were AEI, GEC, Philips, Crompton and BELL, directly or through subsidiaries together with Siemens Bros. & Co., (which was subsequently acquired by AEI). Philips resigned from ELMA in 1955. The Association was dissolved in the wake of the enactment of Restritive Trade Practices Act, 1956. But in 1957 another association—Electric Lamp Industry Council (ELIC) was formed. "Its membership consisted of the former members of ELMA, Philips, Thorn and Ekco—Enisgn Ltd. in which Thorn had a controlling interest. The members continued to maintain their respective resale prices of their main brands but they no longer did so collectively: neither did they fix lamp prices collectively although their prices nevertheless remained substantially the same. ELIC through up a discount structure which recommended discounts for main brands of lamps which were broadly equivalent to the ELMA discounts and quantity rebates. As from 1st April, 1967 the members of ELIC abandoned resale price maintenance irrespect of their main brands of lamps; their respective prices and discounts have since been recommended or, in one sense, published for guidance, and until March, 1968 were virtually identical between the members. The recommended (or published) retail prices remain virtually identical, type for type

APPENDIX VI

Raw Materials and Components required for the manufacture of GLS and FT Lamps.

GLS Lamps

Flange glass Exhaust tube Leading-in-wire

Tungsten filaments

Moly Wire Nitrogen gas Argon 8%

Gettering
Glass Shells
Caps-aluminium

Capping Cement

Solder wire Stamping paste Packing roll

Printed box

Plates Gum tape 1" Gum tape 3"

Fluoroscent Lamps

Leading-in-wire

Flange glass
Exhaust tube

Centering tube
Tungsten filaments

Shells Emitter Mercury

Argon/Neon gas Caps-aluminium Capping cement Solder sticks Flue powder

Butyl acetate

^{9.} Second Report on the Supply of Electric Lamps Part I, op., cit., p. 43.

^{10.} Second Report on the Supply of Electric Lamps Part, op. cit. p. 9.

^{11.} Ibid. Pps. 9-10

Mono ethyl glycolether Lactic ethyl ether Marking paste Anode strips Centre lead Aluminium oxide Sleeves Gum tape 1" Packing box Gum tape 3" Thermocole

APPENDIX VII No. EEI-5/8/61 GOVERNMENT OF INDIA

MINISTRY OF COMMERCE AND INDUSTRY

New Delhi the 3rd February, 1962 14th Magha, 1883.

From

Shri P.J. Menon, Under Secretary to the Govt of India.

To

M/s. Philips India Ltd., 7, Justice Chandra Madhab Road, CALCUTTA-20.

Subject—Application for the sanction of foreign loan required for import of capital equipment for your various manufacturing project.

GENTLEMEN,

I am directed to refer to your letter No. 11/07/016 dated the 10th January, 1962, on the above subject and to say that Government of India approve of your proposal to obtain long-term loans amounting to Rs. 10 million from M/s. N.V. Philips, Holland and M/s. Nederlandsche Handel-Maatschappiji, Amsterdam, for the Import of plant and machinery subject to the following conditions:—

- (i) The loan of Rs.50 lakhs in foreign exchange to be obtained from M/s. N.V. Philips, Holland would be utilised for the import of plant and equipment with the prior approval of the Government and will be converted into equity capital of the Company within a period of five years on such terms as may be approved by the Controller of capital issues. The company will bring the proposition of the foreign holding, when fresh capital is issued, to 60%.
 - The rate of interest on this loan will be 6% per annum and the interest will be payable half yearly. This interest of 6% P.A. will not be subject to income-tax.
- (ii) The loan of Rs. 50 lakhs in foreign exchange proposed to be obtained from the Nederlandsche Handel—Maatshcappiji, Amsterdam will be utilised for the import of plant and other equipment with the prior approval of the Government.
 This loan will be repayable over a period of 12 years with no repayment for the first 5
 - years. Thereafter the loan will be repaid in 7 equal instalments. The first instalment of the loan will be payable on 1st January, 1968, and thereafter in six annual instalments, the last yearly instalment being paid on 1st January, 1974. This loan will bear interest at the rate of 6% per annum which will be not subject to income-tax.
- (iii) You will endeavour to export 10% to 20% of the annual output of your Indian Company.

You may forward your import applications against licences already granted to you under the Industries (Development and Regulation) Act to the Chief Controller of Imports and Exports, New Delhi, through the Development Wing in this Ministry.

Yours faithfully, (Sd/) P.J. MENON Under Secretary to the Government of India.

No. 1/13/74—M(III)

GOVERNMENT OF INDIA

MINISTRY OF LAW, JUSTICE AND COMPANY AFFAIRS DEPARTMENT OF COMPANY AFFAIRS

BEFORE THE CENTRAL GOVERNMENT

In the matter of notice under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969.

AND

In the matter of proposal of Philips India Limited for effecting substantial expansion in the manufacture of General Lighting Service Lamps and Fluorescent Tube Lamps.

Philips India Limited (hereinafter referred to as the "applicant company") gave a Notice dated 14-3-1974 (received on 28-3-1974) under section 21 of the monopolies and Restrictive Trade Practices Act, 1969 (hereinafter referred to as "the Act") to effect substantial expansion in the manufacture of General Lighting Service (GLS) Lamps (15 watt to 200 watt) and Fluorescent Tube (FT) Lamps by 9 million pieces and 2.25 million pieces, respectively, per annum. The present licenced capacity of the Company is 8 million pieces per annum of GLS Lamps and 1.5 million pieces of FT Lamps. The cost of the project was estimated at Rs. 166.6 lakhs (Land & building Rs. 12.0 lakhs, Plant and machinery Rs. 111.7 lakhs and raw material Rs. 42.9 lakhs. The cost of imported capital equipment was estimated at Rs. 79 lakhs and that for imported raw material at Rs. 76.91 lakhs p.a. The entire cost of the project was proposed to be financed from the internal resources of the Company.

- 2. The applicant company is registered under Section 20(a) (ii) of the Act. 60% of the share capital of the Company is held by N.V. Philips, Gloilampenfabricken of Holland. The Company has admitted interconnections with Electric Lamp Manufacturers (India) Pvt. Ltd. The value of assets of the company was about Rs. 59 crores at 31-12-1972. It is engaged in the production of Electrical and Electronic Products.
- 3. The applicant company published public notices in the "INDIAN EXPRESS" dated 4-2-1974 and the "COMMERCE" dated 9-2-1974. Objections against the proposal of the company were received from several parties including Indian Lamps Factories Association, Calcutta.
- 4. On a consideration of the available information, the Central Government formed the opinion that an Order on the proposal of the applicant company could not be made without further enquiry. Accordingly, the proposal was referred to the Monopolies and Restrictive Trade Practices Commission (hereinafter referred to as "the Commission") under section 21(3) (b) of the Act for an enquiry and report. The commission submitted its report recommending the proposal of the company subject to certain conditions. The copies of the Commission's report were supplied to the applicant company and each of the objectors who had disclosed their interests before the Commission as well as the Central Government and desired to have copies of the Report.
- 5. An opportunity of being heard in terms of section 29 of the Act was given to the applicant company and all the objectors on 3rd February, 1976. Out of the 24 objectors invited to attend the hearing, only the following five parties were represented at the hearing:—
 - 1. Indian Lamps Factories Association.
 - 2. Sylvania & Laxman Limited.
 - 3. Cormpton Greaves Limited.
 - 4. Bajaj Electricals Limited.
 - 5. Bengal Electric Lamp Works Limited.
- 6. The representatives of the applicant company and the objectors were informed that the Central Government noted with concern that the applicant company had been producing GLS & FT Lamps much beyond its licensed capacity in an unauthorised manner. After having considered the report of the Commission and the recommendations made therein, the Central Government had

decided tentatively to consider the proposal of the applicant company subject to the following conditions:—

- (i) The Company shall have the excess unauthorised production of GLS and FT Lamps over and above its present licensed capacity regularised by making an application to that effect to the Government.
- (ii) The company shall export 60% of the production in excess of its present licensed capacity upto 24 million nos. per annum in the case of GLS Lamps and upto 4.00 million nos. in the case of FT Lamps.
- (iii) The Company shall export 75% of production over and above 24 million nos. of GLS Lamps and 4.00 million nos. of FT Lamps.
- (iv) The export obligation shall be for a period of 10 years.
- (v) The company shall dilute its foreign holdings in accordance with the prescribed dilution formula.
- 7. The representatives of the applicant company clarified that the company had already made an application to the Government in the Ministry of Industrial Development for regularisation of the excess production of GLS and FT Lamps over and above the licensed capacity. They further stated that the Company required some time to consider the conditions proposed by the Government which were in modification of the recommendations of the Commission and that hearing should be adjourned for about 4 weeks so that the Board of Directors of the Company could consider the matter. The hearing was accordingly adjourned to 6th March, 1976.
- 8. At the adjourned hearing held on the 6th March 1976, the representatives of the applicant company expressed their unwillingness to accept the conditions (ii), (iii) and (iv) relating to export obligation both as regards the quantum as also the period. They referred to difficult situation in the international market and stated that the industry in the World had suffered a severe set-back. Despite these difficulties, the Company would be prepared to undertake exports to the extent of 60% of the expanded capacity with the full support and backing of its parent company. In addition to this, the Company would also be prepared to export 15% of the value of components included in the lamps of its expanded production. They stated that it would be unrealistic and rash for the Company to commit to a period extending to 10 years without knowing how the industry and the international market in particular would develop during this period. They, therefore, requested that the period of export obligation should be 5 years at the end of which the Company could review the situation in consultation with the Government and decide about the further extension of the period by another 5 years. They conveyed the company's acceptance of the remaining conditions.
- 9. In regard to the unauthorised excess production in relation to the Company's licensed capacity, the representatives explained that the Company had imported three chains against the import licences granted by the Government. Each chain had a capacity of 3 million pieces per annum of GLS Lamps. Applying the norm of 1½ shifts, the capacity of the company would be reckoned as 13.5 million nos. for the GLS Lamps. After adding 25% to it, the Company's capacity should be recognised at 16.88 million GLS. On the same basis the capacity for FT Lamps should be recognised at 2.81 million FT Lamps. The excess production, therefore, represents only the difference between these capacities and the Company's actual production. They further explained that the higher production had been achieved by the Company by better utilisation of the installed machinery and higher efficiency. The Company would be prepared to undertake and export obligation of 15% of the excess production, as reckoned above, pending implementation of the present expansion proposal, but this should be restricted to a period of only 5 years beginning January, 1974.
- 10. The proposal of the Company was strongly objected to by the representatives of the Indian Lamps Factories Association, Bengal Electric Lamps Works Limited and All India Small Scale Lamp Manufacturers Association on almost identical grounds. It was made out by them that while the Government had committed itself to a socialistic pattern of society based on planned economic development, the unauthorised excess production made by the applicant company struck at the very root of the social objective and the planned development of the country. They also challenged the explanation given by the applicant company that the excess production was due to higher efficiency. They further stated that the Government had much earlier advised the Company to attempt, as part of its overall development and operations, to undertake export to the extent of 10 to 20% of its total output. The Company had failed to fulfil this obligation despite the brand image that it enjoys in the market both national and international, notwithstanding the glut in the domestic market during the last few years thereby endangering the existence of indigenous and smaller units. They stated that the Company enjoyed in the domestic market a monopolistic position together with Electric Lamp Manufacturers India Limited and Hind Lamps Limited. By virtue of its world-wide organisation and technical and marketing competence, the prices of its products

were marked 15 to 20% higher than the similar products manufactured by other units in the country. This resulted in high profitability of the compnay and more repatriation of profits abroad. They also referred to the indirect payments in foreign exchange being made by the company for import of raw materials like binder stamping paste, and basing cements. These items could be manufactured indigenously by importing the necessary raw material which would cost less in terms of foreign exchange payments. The representatives of the All-India Small Scale Lamps Manufacturers Association expressed the apprehension that in case the expansion applied for by the applicant company was allowed to it, the small scale units would be starved of the supply of lamp components in respect of some of which the applicant company was the sole manufacturer. They, therefore, suggested that the production of the applicant company should be restricted to its licensed capacity for domestic market; the entire excess production beyond the licensed capacity must be exported; 60% of the equity share of the company must be held by Indians; and finally, no further expansion should be allowed to the Company for domestic market as it would effect adversely the growth and development of the small and medium scale units.

- 11. The representatives of the Sylvania & Laxman Ltd. who were also one of the objectors, suggested that the Company should be asked to export 60% of its present production over and above its licensed capacity; 75% of the additional capacity applied for by it; and 100% of the production over and above the revised licensed capacity that may be granted under the expansion. They also stated that the position should be reviewed after 10 years to decide the quantum of exports to be made by the applicant company in the interest of country's foreign exchange needs. It was also pointed out by some of the objectors that the unit price realisations estimated by the company were lower than the prevailing prices in the international market.
- 12. Replying to some of the points made by the objectors at the hearing, the representatives of the applicant company stated that while it may not be possible for it to meet the entire requirements of small scale units for components in respect of some items like Filament, in view of the Company's limited production capacity and its own captive need, the company would extend every co-operation in helping the small scale units in so far as the supply of components to them were concerned. In fact, the applicant company had earlier offered to the Government to set up an agency which would get supplies of components from the applicant company and arrange the distribution to small scale units. In regard to the unit price realisations in the international market, they assured that best possible prices would be procured while effecting exports.
- 13. The Central Government has carefully considered the report made by the Monopolies & Restrictive Trade Practices Commission, the submissions made by the applicant company and the objectors at the hearing. The items of manufacture are not open to large houses/foreign majority companies unless they undertake to export at least 60% of the production. The applicant company has non-resident equity holding of slightly more than 60% and together with its interconnected undertakings, namely, Electric Lamp Manufacturers India Limited and Hind Lamps Ltd., enjoys a monopolistic position in the production of GLS Lamps and FT Lamps. The present licensed capacity of the company is 8 million Nos. of GLS Lamps and 1.5 million Nos. of FT lamps. The Company has been producing much in excess of its licensed capacity without any authorisation and its production during the year 1974 was about 23 million of GLS Lamps and 4 million of FT Lamps. The demand for GLS and FT Lamps by 1978-79 is estimated at 190 million and 20 million respectively. As against this, a capacity of 166 million for GLS and 18 million for FT Lamps has already been installed. Letters of intent for additional capacity of 130.90 million of GLS Lamps and 6.02 million of FT Lamps have also been issued. Of this a capacity of 60 million of GLS and 3.5 million of FT Lamps is likely to materialise. Thus, there is no scope for creation of fresh capacity in this field for satisfying the domestic demand. As the applicant company is enjoying monopolistic position, its proposal for expansion could only be considered if it is meant substantially for exports. The proposal of the Company has strongly been opposed by the indigenous manufacturers of GLS and FT lamps. The fear of the small scale units of being starved of the essential lamp manufacturing components, in respect of some of which the applicant company is sole manufacturers, is not totally unfounded. In view of the reluctance of the applicant company to accept the conditions unequivocally as proposed by the Government, the Central Government is of the opinion that it is not expedient in public interest to accord approval to the proposal of the applicant company and that is should be rejected. ORDER

In exercise of its powers conferred under Section 21(3) (c) of the Monopolies & Restrictive Trade Practices Act, 1969 the Central Govt. hereby rejects the proposal of Philips India Ltd. as contained in its notice dated 14th March, 1974, under section 21 of the said Act.

(Sd.) (M.C. VARMA)

New Delhi-1, 5th May, 1976.

Deputy Secretary to the Government of India



REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF SYSTRONICS (A DIVISION OF SARABHAI SONS PRIVATE LIMITED) AHMEDABAD





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MONOPOLIES AND RESTRICTIVE TRADE PRACTICES COMMISSION

Report under Section 21(3)(b) of the M.R.T.P. Act, 1969 in the case of Systronics (A division of Sarabhai Sons Pvt. Ltd.)

CHAPTER I

INTRODUCTION

- 1.0 Systronics (a division of Sarabhai Sons Pvt. Ltd.), 89-92, Industrial Area, Naroda, Ahmedabad submitted an application under Section 22(2) of the M.R.T.P. Act, 1969, on July 27, 1971 to the Government of India, Department of Company Affairs for grant of an Industrial Licence for making substantial expansion by undertaking the manufacture of electronstatic photocopying machines (EPMs). The application was referred to the Commission under Section 21(3)(b) of the M.R.T.P. Act, 1969 by the Department of Company Affairs vide their letter No. 1(10)/72-M (III) dated June 21/23, 1972.
- 1.1 In terms of Section 30(2) of the M.R.T.P. Act, 1969, the Commission was to submit its report to the Central Government by September 20, 1972. The time had to be extended to November 30, 1972 as there was delay in getting the requisite information from the applicant company and some Government Departments.

Applicant Company

- 1.2 Sarabhai Sons Pvt. Ltd. was incorporated as a company on May 17, 1940. It originally functioned as a Managing Agency. Now it has two broad divisions: Systronics Division and Marketing Division.
- 1.3 The Marketing Division operates under the names of Home Products Marketing Agency, Industrial Products Sales Division and Pharmaceutical and Chemical Indentors. This Division is engaged in the sale and distribution of consumer and industrial products such as detergents, toiletries, cosmetis, health and nutritional products and pharmaceuticals.
- 1.4 In December, 1965 Sarabhai Sons Pvt. Ltd. established a manufacturing division, known as Systronics, for the manufacture of electronic testing and analytical instruments. Systronics was registered as a small scale unit with the Directorate of Industries, Government of Gujarat. At present the company is manufacturing 11 products which have been designed and developed on their own between 1966-1970. In addition, Systronics are exclusive distributors for Beckman Instruments and Varian Associates of U.S.A. in India. The details regarding the products manufactured by Systronics are given in Table I.

TABLE I

Item-wise Licensed Capacity, Installed Capacity and Trend in Production

Sl. No.	Name of the product			Licens capac		Install capaci		Actual production in					
								F.Y.	1967	1968	1969	1970	1971
1		2			3		4	5	6	7	8	9	10
A. And	alytical Instru	ıments											
1. In	dustrial pH	Meter		•	200	Nos.	250	Nos.	Nil	88	102	50	200
	oductivity ouses.	Bridge	for	Dye	200	39	250	,,	Nil	. 1	1	50	50
3. Fla	ame Photom	neter .	•		100	,,	125	,,	Nil	48	50	75	100
4. Ul	ltrasonic Cle	aner	•	•	100	· ,,	125	,,	Nil	45	••	50	50

TABLE 1-Contd.

1 2		3	·	4		5	6	7	8	9
5. Slub Catcher		200	Nos.	250	Nos.	Nil	44	150	150	150
6. Densitometer		100	,,	125	,,	Nil	55	50	50	50
7. Calorimeter	•	100	,,	125	,,	115	154	125	126	200
B. Testing Instruments										
8. Standard Signal Generator	•	50	,,	62	,,	Nil	Nil	50	Nil	75
9. Vacuum Voltmeter .		100	,,	125	,,	Nil	Nil	50	50	100
10. Precision Audio Oscillator		100	,,	125	,,	Nil	37	50	50	100
11. Transistorised Power Supply	•	100	,,	125	,,	Nil	68	150	150	150

Note:—When established, Systronics submitted their proposals to the Director of Industries, Government of Gujarat and Textile Commissioner, Government of India, who granted licenses to the company for undertaking manufacture of various products the details of which are given in the above table. One of the conditions of the Essentiality certificate for import licenses stipulated that if the demand for imported raw materials does not exceed the amount allocated, the company was at liberty to produce more than the licensed capacity. This provision was made in the Essentiality Certificate No. TX. M/IMP/AM67/S-131/4975 dated June 29, 1966. This according to the applicant company accounts for the difference between licensed capacity/installed capacity and production in respect of a few products as is discernible from the figures presented in the above table.

Source: Applicant Company.

- 1.5 Table I indicates that the production of almost all the products has increased substantially since 1968. In several items, production in 1971 was either equal to or more than the licensed capacity. In two items, production in 1971 was above the installed capacity. It may also be noted that the installed capacity (1971) for all the items exceeds licensed capacity invariably by 25%.
- 1.6 Table II indicates the trend in overall production (in quantity and value) between 1968-69 and 1970-71 under two broad groupsviz, analytical and testing instruments. The figures in Table II indicate that, relatively speaking, there has been larger expansion in respect of testing instruments (both in terms of number of instruments produced and their value) than in analytical instruments.

TABLE II

Production in Quantity & Value for 1968-1969 to 1970-71 and Estimates for 1971-72

Thurs of instruments	1968	-69	196	9-70	19	70-71	19	971-72
Type of instruments	Qty. (Nos.)	Value	Qty. (Nos.)	Value	Qty. (Nos.)	Value	Qty. (Nos.)	Value Estimates)
(i) Analytical Instru- ments	432	1104.7	465	1100.2	511	1161.0	700	1627.2
(ii) Testing Instruments	201	266.3	350	758.1	350	824.4	375	711.6
TOTAL		1370.7		1858.3		1985.4		2338,8

Source: Applicant Company.

1.7 Systronics are licensed to manufacture 17 instruments of which 11 items are actually being manufactured at present. They have not yet taken the up manufacture of the remaining

six items as the licenses thereto have been issued to them only recently by the Commissioner of Industries, Government of Gujarat. These items are:

- 1. Precision Single Beam Oscilloscope.
- 2. Transistorised Stoboscope.
- 3. Titrimeter.
- 4. Polarograph.
- 5. Evenness Tester.
- 6. Whiteness Tester.

1.8 In addition, Systronics have applied for an industrial licence for the manufacture of electronic digital desk calculators with an annual capacity of 5,000 pieces. The application is still pending with the Central Government. The details of licenses applied for and received are given in Table III.

TABLE III

Licenses Applied for and Received (In Numbers)

Sl. No.	Products	Capacity applied for	Additional capacity applied for	Total capacity Col. 3+ Col. 4	Licen capac	
l.	Industrial pH Meter	200	400	600	200	••
2.	Conductivity Bridge for Dye House.	200	400	600	200	••
3.	Flame Photometer	100	200	300	100	
4.	Ultrasonic Cleaner	100	200	300	100	••
5.	Colorimeter	100	200	300	100	••
6.	Slub Catcher	200	400	600	200	• •
7.	Densitometer	100	200	300	100	•
8.	Standard Signal Generator.	50	100	150	5 0	
9.	Vacuum Voltmeter	100	200	300	100	••
10.	Precision Auto Oscillator .	100	200	300	100	
11.	Transistorized power supply	100	200	300	100	• •
12.	Precision Single Beam Oscilloscope	50	••	• • •		Capacity recently allowed by the State Directorate of Industries.
13.	Transistorised Stoboscope .	100	••	• •	100	Do.
14.	Titrimeter	100	•• *		100	Do.
15.	Polarograph	50	• •		5 0	Do.
16,	Evenness Tester	50		• •	50	Do.
17.	Whiteness Tester	100	• •		100	Do.
18.	Electronic Digital Desk Cal- culator	5000		••	•••	The grant of an industrial licence is pending with the Central Government.

Source: Applicant Company.

1.9 The trend in turnover of the trading divisions of Sarabhai Sons Pvt. Ltd. during the last 5 years is given in Table IV. The turnover of the agency divisions has expanded more than four times during the past three years reaching Rs. 31.43 crores in 1971-72.

TABLE IV

Turnover of Marketing Division during last 5 years

(Rs. in lakhs)

Year		_				Systronics Agency	Other Agency Departments	Total
1967-68				.•		Nil	Nil	Nil
1968-69	•	•		•		Nil	Nil	Nil
1969-70	•					Nil	730.42	730.42
1970-71			•			Nil	1904.04	1904.04
1971-72	• .	•	•	•	•	36.43* *(\$ 4,70,000)	3106.97	3143.40

Source: Applicant Company.

- 1.10 Sarabhai M. Chemicals Pvt. Ltd. (formerly known as Sarabhai Merck Ltd.), the holding company of Sarabhai Sons Pvt. Ltd., was originally incorporated in 1958, as a public limited company. E. Merck Darmstadt, West Germany, held 35.59% of the equity capital of the company and the remaining capital was held by the Sarabhai family. The company entered into a technical collaboration agreement with E. Merck Darmstadt for the manufacture of Vitamin 'C'. Sorbitol and fine chemicals. In July, 1969, the collaboration agreement was terminated and the equity holdings of E. Merck were bought by the Indian shareholders. The company was then converted into a private limited company.
- 1.11 Since 1967, the overall licensed as well as installed capacity of Sarabhai M. Chemicals Pvt. Ltd. (See Table V) has expanded substantially-licensed capacity from 1,180 tonnes in 1967 to 1,585 tonnes in 1971, and installed capacity from 1,240 tonnes to 1,970 tonnes. The largest expansion has taken place in the case of fine chemicals. In 1971, as can be seen from Table V, actual production was larger than the licensed capacity in all the three products and larger than even installed capacity in respect of vitamin 'C' and sorbitol.

TABLE V

Licensed, Installed Capacity and Trend in production of Sarabhai M. Chemicals Pvt. Ltd.

(In Tons) Name of the Licensed Installed Actual Production **Product** capacity capacity Vitamin 'C' Sorbitol (70%) Fine Chemicals TOTAL

Note:-Years relate to Financial Year.

Source: Applicant Company.

Financial Structure

- 1.12 The value of the total assets of Sarabhai Sons Pvt. Ltd., as on March 31, 1971, was Rs. 117.92 lakhs of which Rs. 15.72 lakhs represent fixed assets. The fixed assets of Systronics amount to Rs. 11.20 lakhs—5.22 lakhs—land and building and Rs. 5.98 lakhs—machinery and equipment.
- 1.13 Sarabhai Sons Pvt. Ltd. has an authorised capital of Rs. 30.00 lakhs and issued and subscribed capital of Rs. 26.00 lakhs. The details of authrorised and subscribed capital as on December 31, 1971 are as follows:-

Authorised Capital	Rs.
2100 Equity Shares of Rs. 1000 each	21,00,000
500 9% Cumulative Redeemable Pref. Shares of Rs. 1000 each	5,00,000
400 Shares (unclassified) of Rs. 1000 each	4,00,000
	30,00,000
Issue & Subscribed Capital	
2100 Equity Shares of Rs. 1000 each fully paid (of the above 300 shares are allotted as fully paid Bonus Shares by capitalisation of Reserves). (The entire capital is held by the holding company—Sarabhai M. Chemicals Pvt. Ltd.).	21,00,000
Preference Shares 500, 9% cumulative Redeemable Preference Shares of Rs. 1000 each (the entire capital is held by the holding company—Sarabhai M. Chemicals Pvt. Ltd.)	5,00,000
	26,00,000

1.14 It will be observed from the above that out of the total equity capital of Rs. 21 lakhs, Rs. 3 lakhs represent fully paid bonus shares issued out of the reserves. As will be observed from the subsequent analysis of the company's financial performance in earlier 5 years, the financial results of the company have not been very happy. But it has declared the above mentioned bonus shares out of its reserves, mainly built up from depreciation and development rebate.

Shareholding Pattern

1.15 The shares of Sarabhai Sons Pvt. Ltd. are entirely held by Sarabhai M. Chemicals Pvt. Ltd. which is, as shown below, a closely held company of the Sarabhai family:—

सन्धर्मव जयते

Shareholding Pattern of Sarabhai M. Chemicals Pvt. Ltd.

Name of the Shareholders							Shares held	Percentage
1. Karamchand Premchand Pvt. Lt	d. (ar	inte	rconn	ected c	ompa	ny)	15	0.18%
2. Bank of India, Ahmedabad (on relatives).	beha	lf of	Sarab	hais a	nd th	eir	3206	38.90%
3. Sarabhai Family and Relatives	•		•		•	•	5039	60.92%
				To	ΓAL	•	8250	100.00%

Source: Applicant company.

Inter-connection

1.16 According to the Industrial Licensing Policy Inquiry Committee Report, the Sarabhai group consisted of 29 companies whose paid-up capital and assets were Rs. 6.27 crores and Rs. 56.71 crores respectively as on December 31, 1966.

- 1.17 The Department of Company Affairs has listed companies belonging to 48 large Industrial houses (for the purposes of the M.R.T.P. Act) according to which the Sarabhai group consisted of 27 companies in 1967-68 having total assets of Rs. 72.58 crores.
- 1.18 The applicant company in its application has admitted inter-connection with 10 other companies. Thirteen group companies including Sarabhai Sons Pvt. Ltd. have been registered under Section 26 of the M.R.T.P. Act. Two undertakings (Suhrid Geigy Ltd. and Suhrid Geigy Trading Ltd.), although not inter-connected according to the Sarabhai Sons Pvt. Ltd. in terms of Section 2(g) of the M.R.T.P. Act, 1969, are said to have been registered under section 26 of the M.R.T.P. Act, 1969 for abundant caution. The applicant company has mentioned that the value of assets of the said 11 inter-connected undertakings does not exceed Rs. 20 crores. However, according to the Note prepared by the Department of Company Affairs for the Advisory Committee, the value of assets of Sarabhai Sons Pvt. Ltd. together with its inter-connected undertakings is Rs. 31.91 crores. The particulars of the 11 inter-connected undertakings including the applicant company, as furnished by the applicant company, are given below:

(Rs. lakhs)

Sl.	Name and address	Authorised capital	Paid up capital
l.	Sarabhai M. Chemicals Ltd. (Since changed to Sarabhai M. Chemicals Pvt. Ltd.) Ahmedabad.	50.00	16.50
2.	Synbiotics Ltd., as on (1) above	150.00	75.00
3.	Sercon Pvt. Ltd. as on (1) above	75.00	64.00
4.	Vegoils (P) Ltd., Saltpan Road, Wadala, Bombay-31	100.00	100.00
5.	Standard Pharmaceuticals Ltd., 67, Dr. Suresh Sarkar Road, Calcutta-14.	100.00	80.31
6.	Telerad Pvt. Ltd., Saki-Vihar Road, Chandivli, Bombay-72.	75.00	60.00
7.	Sarabhai Technological Development Syndicate Pvt. Ltd., Shahibag House, Shahibag, Ahmedabad.	1.00	0.08
8.	Bakubhai Ambalal Pvt. Ltd., 13, Walchand Hirachand Marg, Ballard Estate, Bombay-I.	10.00	1.00
9.	Travelers Ltd. as on (1) above	2.00	2.00
10.	Karamchand Premchand Pvt. Ltd., as on (1) above	300.00	296.00
11.	Sarabhai Sons Pvt. Ltd. as on (1) above	30.00	26.00
	Total .	893.00	721.61

Source: Applicant Company.

1.19 The company has not accepted inter-connection with Ahmedabad Manufacturing & Calico Printing Company Ltd., a company which was managed by Karamchand Premchand Pvt. Ltd. as managing agents till April 3, 1970. In view of the fact that Karamchand Premchand Pvt. Ltd. has ceased to act as managing agents of Ahmedabad Manufacturing & Calico Printing Company Ltd., and its subsidiaries—Gujarat Nets Ltd., Ilac Ltd., Rajendra Dyeing and Printing Mills Ltd. and Verma Industries Ltd.—the applicant Company has claimed that it is no longer an inter-connected company as per the definition of inter-connected undertakings under the M.R.T.P. Act. Similarly, the company has also not accepted inter-connection with Shilpi Advertising Ltd., Suhrid Geigy Ltd. and Suhrid Geigy Trading Co. Ltd. as none of these companies fall within the definition of inter-connected undertakings envisaged in the said Act. In addition there are nine other companies of Sarabhai Group (as listed by ILPIC) which according to the applicant company do not fall within the definition of "undertakings" as defined in the M.R.T.P. Act and, therefore, have not been considered as inter-connected undertakings. It is claimed by the company that Suhrid Geigy Ltd. and Suhrid Geigy Trading Company Ltd. have been registered under Section 26 of the M.R.T.P. Act only by way of abundant caution.

Management

1.20 The company is managed by a Board of Directors assisted by senior executives. Prior to January 3, 1972 Shri Gautam Sarabhai was the Chairman of the Board and the Directors were Smt. Sarla Devi Sarabhai, Shri Suhrid S. Sarabhai and Smt. Gira Sarabhai. The Board of Director of this company was reconstituted with effect from 3-1-1972. The present Board of Directors consist of—

Shri R.P. Shah (Chairman)

Dr. K. Ramanathan

Shri B. R. Deolalkar

Shri S. Nagaswami

- 1.21 The company has claimed that the changes in the Board of Directors were brought about with a view to having a professional management in charge of the company. The Chairman and three Directors are the employees of the Sarabhai Technological Development Syndicate Pvt. Ltd. which is an inter-connected company providing higher management services to 13 companies belonging to the Sarabhai group and consultancy services to outside companies as well. While Dr. K. Ramanathan is a whole-time executive of Systronics (his services having been placed at the disposal of Systronics), the other three Directors devote only a part of their time to the affairs of the company. Apart from attending Board meetings, the Chairman and other three Directors also rendered services in dealing with day to day problems of their respective areas of specialisation such as legal matters, taxation and marketing.
- 1.22 Systronics is a well managed concern. The General Manager and other senior executives are well qualified and experienced. The company has engaged the services of a number of young engineers in production, research and marketing. The factory layout is good and production processes involved in the manufacture of different products are well organised. An important indicator of its quality management is product development. They have substituted 11 imported measuring and testing products by indigenous manufacture and this without any foreign collaboration. Efforts are being continued to make further improvements in the existing product lines and also to develop new electronic products. The very fact that the average share of R & D expenditure in Systronics works out to over 6% of the annual sales during the last five years is an indication that the company is forward looking.
- 1.23 Systronics provides training which includes both initial and refresher training. The applicant company has stated: "All our sales and service engineers are trained at our factory for a period of one year before being posted outside. We have regular refresher courses every year for both sales and service engineers. Our R & D engineers spend six weeks every year with our field force conducting refresher courses both for established and new products put out regularly by the company. We conduct every year an annual meeting between our field force and factory personnel to understand customer problems better."
- 1.24 Since its inception the company has been following the policy of farming out a significant number of parts and components required for the end products produced to ancillary units. The company has furnished a list of 168 units located in different parts of the country, which have been supplying them parts and components.

CHAPTER II

APPLICANT'S CASE

- 2.0 Systronics have applied for permission to manufacture 1,500 EPMs (under the brand name of Systronics Photocopier) per annum in three phases—500 EPMs in the first phase, 1,000 EPMs in the second phase and 1,500 EPMs in the third phase. The applicants have stated in their application that if they were allowed to establish a capacity of 1,500 machines in a single phase, they would be able to reduce the price of the EPMs by 40% as compared to the price of Rs. 35,000 quoted by their competitors.
- 2.1 Systronics have stated that they will take about 18 months to go on stream from the date they get clearance in all respects regarding their application to establish capacity for 1,500 EPMs in a single phase. According to them, it will be possible to do so because machinery already installed in Systronics can to a considerable extent be made use of for manufacturing EPMs. They will not have to face any problem regarding training workmen or setting up sources for the supply of parts and components from ancillary units.
- 2.2 Systronics have purchased the technical knowhow for EPM from the National Physical Laboratory through the National Research Development Corporation. Two other parties who have similarly been licensed by NRDC are Macneill and Barry Limited and Advani Oerlikon Pvt. Limited. The terms and conditions on which know-how has been sold to all the three parties is as under:
 - (i) As is, where is.
 - (ii) Lump sum premium of Rs. 100,000.
 - (iii) Recurring royalty of 7 percent on net ex-factory sales.
 - (iv) Period of licence is 14 years.
 - (v) Not on exclusive basis.

Import and Requirements

2.3 The applicants have indicated that they will have to import three high vaccum coating units, spares and accessories, leak detection system, pressure monitoring instruments, baffles valves, selenoids, vacuum seal etc. totally valued at Rs. 10.00 lakhs (CIF). The foreign exchange requirements seem to be higher than those indicated by Advani Oerlikon Pvt. Ltd. but lower than those indicated by Macneill and Barry Ltd. The annual recurring import requirements of raw materials and components have been estimated at Rs. 13.30 lakhs the details of which are as under:

Name of Raw Material								Quantity Required per annum
Selenium, tellurium					•			300 Kgs.
Camera lens .								1500 Nos.
High voltage cables		•				•		50000 Metres.
High voltage ractifiers								2000 Nos.
High voltage capacitors								5000 Nos.

Employment

2.4 The total employment potential in this project is put at 281 persons. The break-up of this is as follows:

I. Manageriai		•	•	6
2. Supervisory:				
(i) Technical .			.]	
(ii) Non-technical	•		.)	25

3. Clerical .	•			•		50
4. Labour:						
(i) Skilled .		•				100
(ii) Semi-skilled				•		75
(iii) Unskilled			٠.	•		25
			Т	OTAL	•	281

Infra-structure

2.5 Being a sophisticated machine, EPM necessarily warrants after-sales service and periodical maintenance. In case efficient service is to be provided, facilities like show-rooms, and technical staff to render after-sales service have to be established. Systronics have claimed that they have already the facility of trained sales personnel who will be in a position to provide satisfactory after-sales service. They have branch offices at Bombay, Delhi, Calcutta, Bangalore, Hyderabad, Patna, Jaipur and Madras which provide "prompt after-sales service to customers". The management of Systronics has also indicated that with the expansion of TV centres the number of sale service centres established on behalf of Telerad Pvt. Ltd. (an inter-connected company) will be increased and these can provide the after-sales service for Systronics Photocopiers as well.

Imports & Substitution

2.6 The applicants have stated that EPMs are at present being imported and if they are granted an industrial licence for the manufacture of 1,500 machines per annum, they will be able to save foreign exchange worth Rs. 11.25 crores per annum. This, they have explained as follows:—

"We have indicated the cost of the machine estimated then by NPL to be of the order of Rs. 25,000 as against a similar comparable imported unit of Rs. 1 lakh from U.K. or the U.S.A. Thus, the difference in price between the one to be manufactured by us and the imported one comes to Rs. 75,000. Based on this price difference, the saving in foreign exchange amounts to Rs. 11.25 crores, if the country were to import 1500 machines".

2.7 This figure (Rs. 11.25 crores) is, however, grossly exaggerated since the annual import of reprographic machines is very small. According to an estimate, the value of the total annual import of photocopying machines is only about Rs. 7 lakhs. Their import is allowed against export entitlements and most of them are of electrofax type, the landed price of which comes to about Rs. 20,000 per machine.

Technical know-how and R & D Facilities

- 2.8 Since the know-how has been acquired by them on the basis of "as is, where is" there is need for a lot of improvement in converting the NPL laboratory prototype into a commercially acceptable product. This necessitates the existence of R & D facilities. EPM has two vital parts—optics and electronics. The applicants have already specialised personnel in both the fields as they are already producing a number of electronic analytical and testing instruments. They have qualified and experienced engineers who are in a position to design and fabricate optical parts and electronic circuits.
- 2.9 Systronics have a well established R & D Division which was established right at the beginning. All electronic testing and a nalytical instruments, being manufactured by Systronics, have been developed in its R & D Division. Some of these instruments have been introduced in the Indian market for the first time. R & D in Systronics is almost entirely focussed on import substitution in respect of electronic products. One of the important substituted products is R.C.

Oscillators. During the past five years, Systronics have spent Rs. 4.07 lakhs on R & D which works out to 6.1% of the total sales during this period. The details of R & D expenditure are given below:—

Year				R & D Expendi- ture	Sales (Rs. in lakhs)	Percentage	
1966-67		,		0.08	2.60	3.07	=
1967-68	•	•		1.92	11.69	16.42	
1968-69			•	0.59	15.24	3.87	
1969-70		•		0.61	15.55	3.92	
1970-71		•		0.87	21.14	4.11	

Source: Applicant Company.

- 2.10 In 1970 the Sarabhai group of companies established the Sarabhai Electronic Research Centre (SERC) which is a division of Sarabhai Technological Development Syndicate Pvt. Ltd., SERC is likely to expand its activities when it moves into its own building which will be ready in early 1973. The Centre mainly concentrates on long term R & D Projects sponsored by interconnected companies. The areas currently identified for research development work are: consumer electronics, electronic instruments, digital and logic circuits, cathode ray oscilloscopes and photocopying machines.
- 2.11 It was in the R & D Division of Systronics that the NPL model of EPM has been considerably improved. Their first commercial model of systronics photocopier is in one piece as compared to the three-piece model supplied by the NPL. It should be noted that the prototype developed by Systronics can take only 1:1 copies. Systronics Photocopier looks compact and elegant. All the circuits in their model are based on transistorised circuitory which apart from reducing its size, ensures more reliability, requirements of low voltage and easy operation. The weight of the machine has been reduced to about 50 kg. from about 140 kgs. of the NPL model. Six engineers are engaged in R & D work on the photocopying machine. This work is being continued and Systronics hope to make further operational improvements in the machines. Although so far they have not done any significant work in making the machine automatic, they intend to do so by introducing the solenium plate in the form of a cylinder in the near future.
- 2.12 Research is also being carried on to improve the quality of carrier beads and ink. For the development of inorganic beads and improving the quality of ink, Systronics are taking the help of the Solid State Research Laboratory. Lucknow (Ministry of Defence). Systronics have designed and developed their own coating machine which has the capacity of making six solenium plates per shift.
- 2.13 As a part of the EPM project, Systronics are programmed to develop the off-set printing machine. At present there is only one concern viz. Swift and Co., Bombay, which supplies this machine at the rate of 2 per month at about Rs. 18,000 per piece. This machine can take 5,000 prints per hour. Systronics were of the view that the price of the machine will be reduced considerably if the machine takes only 1000 prints per hour. Systronics, it was reported, are thinking of developing such an off-set printing machine.
- 2.14 For their photo-copier, Systronics intend to farm out some parts and components such as turned parts, chassis, cabinets, knobs and other hardware items to ancillary units. At the public hearing, it was pointed out by the representatives of the company that the parts and components formed out may roughly work out to 20% to 25% of the total cost of production of the EPM. However, it appeared that the applicants have not worked out any details regarding the number and quantum of parts and components which would be formed out to outside unit.

Public Interest

2.15 The applicants have stated that they fulfil all the criteria laid down in Sub Section (a) to (g) of Section 28 of the M.R.T.P. Act, 1969, and therefore the grant of an industrial licence

to the company for the manufacture of EPMs will be in the public interest. The arguments advanced in this connection are as follows:

- (i) Their present line of manufacture is allied to the envisaged item of manufacture.
- (ii) They have capacity to achieve the production, supply and distribution of the machine by efficient and economic means to meet demostic requirements.
- (iii) They have elaborate research and development facilities which are essential to effect further technological improvement on the machine.
- (iv) The machine produced by them would create competition which would be able to maintain the quality of the machine on the one hand and reduce the price of the machine produced by their competitors on the other hand.
- (v) EPM needs huge working capital investment which they can afford to invest from their own resources.
- (vi) The applicant company has the required infrastructure to produce EPMs economically as they would not require substantial additional investment in fixed assets.
- (vii) They have an existing net work of marketing channels which can render efficient aftersales service—an important prerequisite for this machine.

Memoranda

2.16 Das Reprographics, Calcutta, had written to the Department of Company Affairs on May 3, 1972, that since EPMs can be manufactured in the Small Scale Sector, the application of Systronics should not be considered favourably as it belongs to a larger industrial house. However, subsequently in their letter to the Commission (dated August 1, 1972), Das Reprographics have mentioned that they have no objection if premission is granted to .

Systronics

- 2.17 The proposal of the applicants for the manufacture of EPMs was notified in the leading newspapers on July 8, 1972. In response to the Press Notification, two Memoranda have been received by the Commission from Shri Govind B. Shah, Ahmedabad, and Shri Deepak Kanaglokar, Poona. Shri Shah has written to the Commission that Sarabhai Sons Pvt. Ltd. is a monopoly house and has many other industrial companies inter-connected with the house of Sarabhais. He has submitted to the Commission that an industrial licence to such a house for this machine should not be given as all the industrial undertakings of the house are financed to the extent of 90% by Sarabhais themselves. Shri Kanaglokar in his memorandum did not make any comments on the proposal of the applicant but gave some technical information.
- 2.18 None of the existing/intending manufacturers of EPMs has objected to the proposed permission to Systronics except Koron Business Machines Ltd. (See below).

Public Hearing

- 2.19 A public hearing on the applicant company's case was held on November 24, 1972, primarily to give an opportunity to the applicant to clearify their position on some points such as the scheme of finance, possible economies of scale, ancillary development and management. The information given by the applicants have been incorporated at appropriate places in the body of the Report.
- 2.20 The representative of Koron Business Machine Ltd. submitted to the Commission at the public hearing that the applicants' case for permission to produce EPMs should not be recommended because—
 - (i) EPMs can be produced in the small scale sector as was being done by Koron Business Machines Ltd. whose capital investment hardly exceeded Rs. 1 lakh and which purchased virtually all parts and components from ancillary units.
 - (ii) The applicants belong to a larger industrial house.

- (iii) The scheme of finance was capital intensive and has made provision for very high profit ability.
- (iv) The applicants estimate about future demand at 20,000 machines per annum at the end of next five years was "too ambitious".

The representative, however, admitted that Koron Business Machines, Ltd. is a 100% subsidiary of Koros (India) Ltd. It may be noted that Koros was listed as a Birla concern by the Dutt Committee. It had total assets of Rs. 4 crores or so. The representative of the company could not give a satisfactory reply when asked how, in the light of this, his unit could be treated as a small scale unit.

2.21 The representative of the Ministry of Industrial Development pointed out that the manufacture of photo-copiers was not included in the core or heavy investment sector. He stated that in view of the fact that the applicants belonged to a larger industrial house, the applicants could, according to the guidelines laid down by Government, be permitted to manufacture photocopier machines only if they agreed to export a minimum of 60% of their annual production. The applicants' representative however, pointed out that it was next to impossible to compete in the international market against such global giants as Xerox Corporation. The model of EPM which they intend to manufacture is out-dated by international standards. The terms on which Xerox offers the machine to its clients are so attractive to the consumer that there is little possibility of exporting EPMs from India. The company would however try their best to find an export market for the machine after the model was fully developed. But at this stage they were not in a position to make any commitment in this regard.

CHAPTER III

PHOTOCOPYING INDUSTRY AND ITS PROSPECTS

- 3.0 With the growth of modern administration and industry, reprographic requirements are rapidly increasing with an ever increasing demand for copies of documents, drawings, and sketches. The techniques already in operation and commonly known in India are those of cyclostyling, diazo-copying and photostat copying. The machines required for these processes are already being produced in the country.
- 3.1 The new process known as xerography for reprographic copying was invented in the U.S.A. in the 1930s. The Xeror Corporation (USA) introduced these machines and it has maintained its dominance in the world market. Much improvement in the reprographic process has since been attained. One of the latest models is said to be a copier that can copy on both sides of the paper automatically. It is claimed that photos as well as prints, solids, colours and even trickly heavy tones can be finely copied at the rate of 45 a minute.* A further development which is at present in the research stage is the combination of a computer with a photocopier. Two American giants—the Xeror Corporation and the International Business Machines Corporation (IBM) are both engaged in this research to develop a machine which by 1980 will provide "a marriage of the computer and the photocopier to produce a hybrid system that could be called either a computer that copies or a copier that computes."† These developments merely show the advance that has been made in this field by the dominant world producers. Besides the above mentioned two corporations, the other important manufacturers of reprographic machines in the world include the Rank Xerox, U.K., Ricoh Co. Ltd., Japan, Mita Industrial Corporation, Japan, and Varimax, Poland. It should be said to the credit of the National Physical Laboratory that it developed the EPM on the principle of Xerography without any foreign collaboration. The first laboratory prototype was produced in 1970. This model is similar to a much earlier model of Xerox; it is also similar to a model produced by Varimax, Poland. The main features of the model are as follows:—
 - (i) The process is completely dry-no wet chemicals are required.
 - (ii) Copies can be made on any ordinary paper—no special sensitised paper is needed.
 - (iii) Reproduces any size of copy upto foolscap but can also produce reduced sized copies of originals.
 - (iv) Unwanted material in the copy can be erased.
 - (v) No dark rooms are required.
 - (vi) Six copies can be obtained from the same exposure.
 - (vii) A single plate can be repeatedly used for about 2,000 times.
 - (viii) A simple wiping with soft cotton prepares the plate for the next exposure.
 - (ix) Time for obtaining the first copy is about two to three minutes.
 - (x) Copying is very economical. One print costs about 20 paise.
 - (xi) Metal/paper masters for obtaining several thousand copies can be made on this machine but the copies will be made on off-set litho.
- 3.2 Once the model was ready the process was handed over to the National Research Development Corporation The NRDC invited applications from interested manufacturers. From among the many applications that were received three were selected keeping in view the following criteria:
 - (i) The unit should be able to develop and produce the machines in minimum possible time;

^{*}Advertisement by Xeror Corporation in the Times, London, September 19, 1972 page 3 and Nov. 15 1972 page 3. †The Magazine, New York, September 4, 1972, Page 20.

- (ii) the unit should have adequate technological background and organisational capability;
- (iii) the number of selected parties should be small keeping in view the demand prospects for the machine in the near future; and
- (iv) acceptance of terms and conditions for release of know-how.

The terms of the release of know-how have already been mentioned earlier (paragraph 2.2 above). The three selected parties are:—

- 1. Advani Oerlikon (P) Ltd.
- 2. Macneill and Barry Ltd. and
- 3. Systronics.

Import Content

- 3.3 It has been stated that almost all the equipment required for the manufacture of EPMs of the NPL model are indigenously available. It has however been indicated that imported units for selenium coating would be useful for the production of selenium plates on an economical basis. The recurrent import requirements would be regarding the metals-selenium and tellurium—and also optical lenses which are at present not being produced in the country. The commercial grade selenium can at present be imported under actual users licenses and it has to be purified. Facilities for purification are available at the Bhabha Atomic Research Centre. It has been stated that the Indian Copper Corporation is planning to recover selenium. If that happens, commercial grade selenium might also be indigenously available. Efforts are also being made for the local production of the special lenses required for these machines.
- 3.4 The production of EPMs was established in India only recently. Two units, viz. Macneill and Barry and Advani Oerlikon Pvt. Ltd. took up this line of manufacture on licence from the NPL. A third unit, Koron Business Machines Ltd., has claimed that it has developed a more or less similar EPM on its own and it has also entered this line of production. The present position of the existing manufacturers is as shown in the table below:—

TABLE VI

Particulars of units manufacturing Electrostatic Photocopying Machines

Name and Address of the Unit	सद्यम	ाव ज	Present installed capacity (No. of Machines)	Production since inception (No. of Machines)
1. Macneill & Barry Ltd., Ghaziabad	•	•	100 (200)	30
2. Advani Oerlikon Pvt. Ltd., Bombay	•	•	100 (500)	40
3. Koron Business Machines Ltd., Bombay	7.		300	80

Figures in () relate to the capacity recommended by DGTD for registration. In the case of Macneill & Barry DGTD has changed its earlier stand and asked the company, vide its letter dated October 12, 1972, to get MRTP Clearance before being registered for the manufacture of EPMS.

Source: - DGTD and three units.

3.5 The Commission was somewhat puzzled when it discovered that though Macneill & Barry was registered under Section 20(a) of the MRTP Act, no approval for this line of production had been obtained by it. It was understood that the reason was that the Government had not quite decided whether to treat the EPMs as electronic equipment or office equipment. It appears to have been finally decided to treat them as office equipment. As the production of office equipment is not a scheduled industry under the Industries (Development and Regulation) Act, no industrial licence is required for the production of EPMs. Macneill and Barry had assumed that as they were already manufacturing photo printing equipment and as they felt that EPMs were in the same category of non-scheduled items, no permission under the MRTP Act was necessary. The firm had therefore applied for a registration under the DGTD. They have recently been informed by the DGTD that as the firm belongs to one of the top industrial houses, registration cannot be considered unless they obtained clearance under the MRTP Act and also clearance for the import of

capital goods. But, in the meanwhile, Macneill and Barry had already entered production and are actually in the market at present.

- 3.6 Koron Business Machines Ltd. has been registered as a small scale unit. It is a fully owned subsidiary of Kores (India) Ltd. Kores (India) Ltd. had been included by the Industrial Licensing Policy Inquiry Committee as belonging to the larger industrial house of Birlas. Koron have also recently applied for registration under the DGTD so as to facilitate obtaining import licences for required raw materials and parts. They have also applied for a patent for the technical process that they claim to have developed for their own EPM.
- 3.7 Without going into the details of this question, the Commission would like to draw the attention of the Government to the anomalies indicated by these developments. Here we have examples of some competitors being able to go ahead with production while others, somewhat similar in character, await MRTP approval. There is no doubt that there are legal complications and uncertainties in this situation which need to be sorted out. It is necessary that the method of dealing with different cases should not give rise to a feeling that it is much better to find ways of avoiding the MRTP Act rather than attempting to obtain approval under it.
- 3.8 One other similar anomaly to which attention has to be drawn is that Koron Business Machines Ltd., has been registered as a small scale unit because its own capital assets are said not to exceed even Rs. one lakh. It is, however, a subsidiary of Kores whose capital assets exceed Rs. four crores. Similarly, Systronics was also originally registered as a small scale unit even though it was owned by a company whose capital assets exceed the limit laid down for small scale units and which was inter-connected with a number of other units belonging to the so-called Sarabhai Group. It is obvious that the special approach evolved by Government for favouring small scale units and the various facilities that are made available to such units are meant to help genuine small scale producers and new enterpreneurs, and not units which are owned by larger Houses and Companies. Whether the loophole obviously existing in the present rules which enables units like Koron and Systronics to be registered as small scale units should not be plugged is a matter that needs as early attention on the part of Government.
- 3.9 The present position about the installed capacity and production of the existing producers has already been indicated in Table VI above. Each one of these producers is engaged in the task of improving their existing models and producing models more suited to specific reprographic needs of different consumers. It appears that all of them are working on broadly similar lines and the prospects for better models being put in the market in the next few years appear to be quite good.
- 3.10 The EPM is an item which has not been very much permitted to be imported in the country in the past. Only a few machines have been imported on special import entitlement licences. The product has thus been introduced on a commercial basis in the country only in the last year or so. It is therefore difficult to be quite certain about what the demand for these machines in the country is likely to be. Various estimates of demand have been made. The NPL, the NRDC and Systronics all estimate that the demand in the immediate future will be about 3,000 per annum. Koron have estimated that the total demand in the country is not likely to exceed 2,800.
- 3.11 Systronics have stated that they conducted a market survey in collaboration with the Operations Research Group of Sarabhai Technological Development Syndicate Private Ltd. This indicated that the demand would rise further to 20,000 machines per annum at the end of a period of five years.
- 3.12 When considering the question of demand for EPMs, it is also necessary to mentioned that another type of reprographic machine is likely to be produced in the country shortly. The electrofax type of machine which requires the use of sensitised paper (as distinguished from Xeror type machine which can use ordinary paper) is proposed to be produced by one Shri Arjun Kapur. Shri Kapur has been permitted to produce 1,500 electrofax type of machines in the small scale sector and he has been permitted foreign collaboration with a U.S.A. firm for obtaining technical knowhow. Shri Kapur has stated to the Commission that his unit is well on the way to being installed. While initially he had stated that the machines would be priced at Rs. 5,000, his present estimate is that the price will be Rs. 8,000. The landed price of an imported model of this type is about Rs. 20,000. Koron Business Machines have also indicated to the Commission that they are attempting to develop this machine indigenously, i.e. without any foreign collaboration.

3.13 In view of the possibility that this machine would also be introduced in the near future in the Indian market, and further in view of the fact that only a few imported machines have been permitted to be obtained, it is difficult to come to any definite conclusions about the possible demand for EPMs in the Indian market in the coming decade. Looking at the fact, however, that the needs for copying documents of different types are rapidly increasing, it appears to us that at a reasonable price the demand for such machines from various sources, specially Government offices, business organisations and educational institutions would be large enough to justify the estimate of a demand for 3,000 machines per annum in the immediate future. This may rise to 5,000 at the end of five years.

Prices

3.14 While no definite information about the landed cost of imported machines is available as imports have been rare, it is estimated that it would not be less than Rs. 60,000. When Macneill & Barry first introduced their initial model in the market, they quoted a price of Rs. 35,000. Since then, in a brief period of about a year, the prices of these machines have been significantly reduced (see table below):—

TABLE VII

Prices of Electrostatic Photocopying Machine

		Bra	nd	Initial Price	Present Price	Remarks
Macneill & Barry	•	. M	Iajox 121	35,000	30,000 17,000	
Advani Oerlikon	•	(anaprint (i) Regular ii) Delux	27,000	19,000 22,500	Initially both the models were priced at Rs. 27,000.
Koron			Corestat Copier	171 101	18,000 15,000	
Remington Rand	•	•			19,802*	

Note-Prices per machine exclusive of excise duty, sales tax and other taxes.

3.15 As indicated by this table, the prices are being quoted in a range of Rs. 15,000 to Rs. 19,000 and some producers are expecting to be able to produce models which could be priced at about Rs. 12,000.

Export Prospects

3.16 The applicants as well as the other existing manufacturers have stated that exports of these machines would be very difficult in view of the world wide reputation enjoyed by Xerox machines. Xerox and its subsidiaries take up about 75% of the world market. Moreover, the models that are being produced in India are outdated as compared to what is being marketed by Xerox. Only Shri Kapur mentioned that he was confident of being able to effect exports; this may be somewhat easier in his case, with the machine being based on foreign collaboration and therefore on up to date technology developed in the USA. He also mentioned that the possibility of producing various components at a cheaper price in India because of cheaper labour costs should provide an important competitive advantage. Looking at the fact that the labour component in a product of this type is quite large, the possibility of exporting these machines, if they are low priced, cannot be considered quite dim. It would be difficult however to make any categorical statement in this respect at this stage.

Production in Small Scale Units

3.17 One important question regarding the setting up of a new unit in this industry is: should the development of this industry be concentrated in genuinely small scale units? As we have already indicated earlier, this point was placed before the Commission by Koron Business

^{*} It is an imported model of electrofax copier. Supplies are made against import entitlement. Source: Republics received from the respective companies.

Machines who claimed to represent the small scale sector. Whatever the merits of that claim, the question is undoubtedly important. The fact that Koron have been able to produce a large number of machines on the basis of a very small capital through farming out the production of various components among many ancillary producers created a strong argument in favour of relying on small scale producers for the development of this industry. On the other hand, the National Physical Laboratory, who have developed these machines in India, have stated that it is not possible to rely on the small scale sector for the manufacture of these machines. They have stated the reasons as follows:—

- (i) The order of the investment required for a plant of minimum capacity of 200 machines per year is about Rs. 38.00 lakhs.
- (ii) The manufacturers must have a network of sales and service offices throughout the country which is not possible in the case of small scale units.
- (iii) The process of development by the National Physical Laboratory has been released to three licencees on as it is' basis and with the expectation that the licencees would do the tooling and design and bring out the product in a commercially viable manner.
- (iv) For future development, the licencees must have the facilities of a Research Cell for research and development of the product and they should have sufficient experience in various disciplines involved in the manufacture of this machine.
- (v) In the beginning, for one or two years, when the product is still to come up in the final stage of development and design, the manufacturer would have to sink a large sum of money to the tune of Rs. 20 lakhs to Rs. 30 lakhs before the product starts bringing profits.
- 3.18 It is because of these reasons that the National Physical Laboratory selected three units for producing EPMs, all of them from the large scale sector. It is probable that even Koron Business Machines would not have been able to go ahead with production of these machines on the lines they have done but for the fact of their being a subsidiary of a large unit. Specially taking note of the fact that a great deal of technical experimentation and development would be necessary so as to ensure continuous improvement as well as economics in the production of the machine, it does not seem possible to rely on genuinely small scale units for the development of this industry. The technical gap which has to be filled rapidly if the Indian products are not to remain for long very much behind products available elsewhere in the world, also indicates the importance of relying on fairly strong units with a good R & D base for the development of the industry. The importance of providing after-sales service on an extensive scale in a product of this kind is a further argument in the same direction.

CHAPTER IV

SCHEME OF FINANCE

Important Assumptions

4.0 The applicants have submitted the scheme of finance based only on the resources of the Systronics Division and not of the company as a whole. Secondly, in reckoning the profits of the Systronics Division, common expenses incurred by the company for both the Divisions have not been taken into account. If these are taken into account, the profitability of Systronics Division would be a little lower than what has been shown by the company. Thirdly, while Systronics has been making substantial profits, the operations of the company as a whole do not indicate sustained high profitability in the past. For instance, in 1969-70, the gross profits for the company as a whole were Rs. 2.64 lakhs, though for the Systronics Division, they were as much as Rs. 4.06 lakhs. In 1970-71, the gross profits for the company is a whole were only Rs. 1.83 lakhs as against Rs. 5.38 lakhs for Systronics. On the other hand, according to the pre-audited figures furnished by the applicants, the gross profits in 1971-72 for the company as a whole were Rs. 13.84 lakhs as against Rs. 9.32 lakhs for Systronics (see Appendix I). The figures indicate that the Marketing Division of the company is not earning steady profits and the profits earned by Systronics are to some extent eaten up by the other Division, the result being that the profits for the Company as a whole are not very large. The applicants have, in spite of persistent queries, not been able to give any cogent reasons to indicate why it should be assumed that this tendency will be definitely different in the future. Without it, their assumption that the profits made by Systronics would be a major source of finance for the new project cannot be upheld.

Project Outlay

4.1 The outlay on the proposed project as submitted by the applicants is as follows:--

	YAY	VAI		(Rs./lakhs)
Land			1	2.50 (already in possession)
Buildings		9812	2.	30.00
Services	HH 3000	-200	۳.	5.00
Machinery & Test	Equip	ment		25.00
Total Fixed Assets	•	•	•	60.00
Working Capital	•	•	•	67.00
Total Outlay .	•	•		127.00

4.2 The first scheme of finance submitted by the company was as under:

								····						(Rs./lakh
(a)	Borrowin	ıgs froi	m Bar	k for	worki	ng cap	oital	•	•	•	•	٠		50.00
(b)	From I	nternal	Sour	ces fro	om exi	isting	lines				•	•	•	22.81
(c)	From posed P	hased j roject)	progra	mme	of m	anufa	cturin •	g pho	tocopy	ying r	nachii	nes (P	ro-	71.40
(d)	Total	•	•	•	•	•		•		٠.	•	•		144.21
(e)	Surplus	at the	end o	f the j	projec	t perio	od			•		•		17.21

4.3 The company has furnished a "Source Application Fund Statement" for the existing lines as also for the proposed photocopying machine project. This is given in Appendix II, and a summary thereof is reproduced below:—

							Existing Lines (Rs./lakhs)	Photocopying Machine Project (Rs./lakhs)
Sources of funds							_	
1. Pre-tax profits					•		64.02	151.50
2. Depreciation.							7.41	4.50
3. Dev. Rebate							0.86	2.50
4. Term Loans						•	15.00	
5. Current Loans	.•			•		•	31.10	50.00
Uses of Funds			٠	Т	OTAL	•	118.39	208.50
1. Capital expenditu	ıre		•		•		15.72	60.00
2. Working Capital					•	•	35.40	67.00
3. Repayment of Te	rm I	oan			000	TELES.	8.00	
4. Taxes		•	•	56	THE		36.46	87.10
· ·				T	OTAL		95.58	214.10
Surplus .							22.81	
Deficit .					AND DE	277	••	() 5.60
Net Surplus at th	e end	d of 19	75-76		1:21	1888	•••	17.21

Analysis of the Internal Generation of Funds

A. Availability of resources from existing lines of production

4.4 Rs. 22.81 lakhs has been indicated to be the surplus available during the project period (1972-73 to 1975-76) from the existing lines of manufacture. As already stated earlier, during the year 1970-71 the company had earned a gross profit of Rs. 1.83 lakhs (before providing for depreciation and development rebate reserve). A loss on investment of Rs. 13.99 lakhs was charged to the profits for arriving at the figure of Rs. 1.83 lakhs. Since this loss does not pertain to operations of the company, it has to be added back for working out a realistic percentage of profit. After excluding the said losses, the profit on sales for the company as a whole works out to 9.6 per cent. As against this the percentage of profit to sales of Systronics (without allocating common expenses) is 26%. On the same basis, the percentage of profit on sales for the company as a whole for 1971-72 works out to 5.1% and for Systronics to 30%. The projected figures for sales and profits for Systronic Division's existing lines for the years 1966-67 to 1971-72 (actuals) and 1972-73 to 1975-76 (as projected by the applicants) are given below:—

TABLE VIII

Sales & Gross Profits from Existing lines—Systronics Division

Year				Sales (Rs./lakhs)	% Increase over previous year	Gross profits (Rs./lakhs)	Gross Profits/ Sales %
1				2	3	4	5
1966-67	• .			2.58	••	0.68	26
1967 -6 8	•	•	•	11.68	3 53	1.71	15

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TABLE VIII—Contd.

1				2	3	4	5
1968-69	•	•	•	15.24	30	3.01	20
1969-70			•	15.55	2	4.06	26
1970-71		•	•	21.14	35	5.38	26
1971-72		•	•	30.80	49	9.20	30
1972-73		•	•	48.00	60	11.76	25
1973-74			•	60.00	25	14.86	25
1974-75			•	78.00	30	19.23	25
1975-76		•	. •	100.00	28	. 26.44	26

Figures up to 1971-72 are actuals for 1972-73 budgeted and for 1973-74 onwards projected. Source: Applicant company.

4.5 The manufacture of existing Lines was started in 1966-67 and the company has been able to achieve sales of Rs. 30.80 lakhs by 1971-72. According to the projections made by the company, the sales would go up to Rs. 100.00 lakhs in 1975-76. The growth rate for sales during the project period is erratic form year to year and the projections seem to be overoptimistic. The applicant company was asked to state the reasons for the same. The representatives of the company stated that the overall projections for sales have been made on the basis of projected sales of individual items. However, no detailed data were furnished in support of this argument. It is, therefore, problematical whether the growth in the value of sales to the extent of 3.25 times (as compared to 1971-72) during the next four years will be achieved. It is also surprising that the projections of increase in sales in spite of being erratic are such as to give a steady ratio of gross profits to sales at 25%. As already mentioned, the company has also not taken into account the common expenses to be shared by the Systronics Division. The profits will be reduced after allocating the share of common expenses.

B. Resources to be generated from the phased programme of manufacture of photocopying machines

4.6 The details submitted by the applicants claim that they will be able to generate internally Rs. 71.40 lakhs from the manufacture of photocopying machines. Details about the profitability according to the original scheme of finance submitted by the company were as under:—

TABLE IX
Scheme of Finance—Original

						1973-74	1974-75	1975-76
Production		-						
No. of machines	•	•			•	240	560	1200
Unit Price .	•	•	•	•	•	Rs. 16,875	Rs. 16,875 (Rs./lakhs)	Rs. 16,875
Sales	• .	•	•		•	40.50	95.50	202.50
Total Cost .	•	•		•	•	34.00	54.50	97.50
Net Profit .				•	•	6.50	40.00	105.00
Depreciation					•	1.00	1.50	2.00
Dev. Rebate	•	•		•	•	2.50	••	••
Gross Profit			•	•	•	10.00	41.50	107.00
Percentage of Gre	oss Pı	ofit or	ı tota	l cost	•	29.4	76.2	110.3
Percentage of Gro	oss Pr	ofit or	ı sales	٠.		24.7	43.9	52.9

4.7 The gross profits in the last year of expansion, according to the estimates, work out to 110.3% on total cost and 52.9% on sales. This rate of profits envisaged by the company was obviously very high. This was pointed out to the applicants' representatives during the public hearing. They took note of this view and furnished a revised scheme of finance assuming 30% gross profits on sales. The revised scheme furnished by the company is given in Appendix III. The details of profitability worked out according to the revised scheme of finance are as under:—

TABLE X
Scheme of Finance—Revised

						1973-74	1974-75	1975-76
Production								
No. of machines						240	560	1200
Unit Price .						19200	18000	16875
	-	-	-	-	-	(Rs. in	lakhs)	
Sales						45.60	100.80	202.50
Total Cost .						35.42	72.06	143.75
Net Profit .						10.18	28.74	58. 75
Depreciation .						1.00	1.50	2.00
Dev. Rebate					238	2.50	• •	• •
Gross Profit					(C)	13.68	30.24	60.75
% of Gross Profit	to to	otal co	st .		633	39%	41.9%	42.2%
% of Gross Profit					B	30%	30%	30%

- 4.8 It may be noted that in the original scheme of finance, the company had assumed a constant sale price of Rs. 16,875 per machine during the project period. In the revised scheme, the sale price per machine has been increased to Rs. 19,200 in the first year (1973-74), reduced to Rs. 18,000 in the second year and further to Rs. 16,875 during the third year. Only in this last year does it correspond to the constant sale price assumed in the original scheme of finance.
- 4.9 The percentage of profit to total cost, as per the revised scheme, during the years 1974-75 and 1975-76 is more than 40%, while in 1972-73 it comes to 39%. The margins of profit assumed in both the schemes of finance are very high. It would obviously be inappropriate to accept a scheme of finance which assumes such high rates of profitability.
- 4.10 In this connection, it is important to note that the applicants have asked for permission to produce 1500 machines per annum mainly on the plea that if they are permitted this size of output from the very beginning, it would be possible for them to organise production in such a way as to obtain substantial economies of scale. Even in their last communication to the Commission dated 19th November, 1972, they have stated as follows:—

"In our application and subsequently, we had mentioned that if we were licensed to manufacture 1500 units of Photo Copying Machines per year, we would be able to bring down the cost of the machine by 40%. This statement still holds good, but as yet we have not manufactured and have not fixed any selling price, the question of bringing down the price does not arise. Although we have not prepared any detailed estimate, but we have made a comparison of what happens to some of the semi-variable and fixed costs if a comparison between 500 and 1500 machines was made. For instance, on the sale of 500 machines we expect that our selling expenses would be about Rs. 19 lacs, showing an average of Rs. 3900 per machine. The selling expenses are expected to go up to Rs. 25 lacs per annum on the sale of 1500 machines showing an average cost of selling expenses at Rs. 1600 per machine. Likewise, the depreciation cost per machine on the manufacture of 1500 machines should be roughly 1/3 of the depreciation per unit at 500 machines per annum as most of the equipment would still have to be installed whatever may be the capacity. The same would apply to

administrative and distribution overheads. Therefore, we still believe that compared to 500 machines per year the economics of scale of operations for the manufacture of 1500 machines per annum would result in a saving of about 40% in the cost of manufacture."

- 4.11 The Commission feels a little surprised that even a well organised group like this though they have been working on the project for about a year, are not able to give more specific indications about how the economics of scale would be reached. But we are satisfied that the argument is broadly valid and that permitting the applicants a size of 1500 from the very beginning would have definite advantages. This however implies that they would obtain substantial economics in the cost of production—about 40%—when they produce 1500 instead of 500 according to their own calculations. It is obvious therefore that the assumption that they are to be permitted to charge prices which would be so high as to yield very high profits even in the developmental period cannot be sustained. The whole basis of permitting a size of 1500 would vanish if a scheme of finance was permitted in which their price is hardly lower than the prices charged by smaller producers and where the advantage of economics of scale is obtained by the applicants for building up their own finances and is not substantially passed on to the consumer. It is obvious therefore that the Commission cannot approve the scheme of finance based on the maintenance of prices and profitability at such a high level. While a profitability of 15 per cent on sales (gross profits minus depreciation) is considered reasonable in the period of full operation, it cannot be accepted that such a level or a much higher one should be permitted even in the developmental period just to make sure that no outside finance is required for carrying out the projected development. such an approach would put too much burden on the consumer which is not justified.
- 4.12 It should also be mentioned that it does not seen likely that it would be possible for the applicants to maintain the price at such a high level. Other producers are already thinking in terms of putting forward models similar to the one contemplated by Systronics at a price of around Rs. 12000. If this happens, Systronics will also be compelled to charge a somewhat similar price. It would therefore not at all be appropriate to accept a scheme of finance which would be based on such undue and uncertain assumptions about high prices.

Debt Equity Ratio

4.13 The share capital of the company at the end of 1970-71 was Rs. 26 lakhs. As against this, the total borrowings of the company at the end of that year were Rs. 29.43 lakhs. Thus, the equity debt ratio was 1:1. The company has shown the following borrowings to finance the increase in production in the existing lines and for the manufacture of photocopying machine.

Existing borrowings		•					7.00
Additional borrowings							
	•				•		31.10
To be borrowed from banks for photocopying ma	achin	nes as	stated	l by tl	ie con	npany	50.00

^{4.14} As against borrowings amounting to Rs. 117.53 lakhs, the share capital, as the applicants' scheme, will remain at Rs. 26 lakhs. This will give an equity debt ratio 1:4.5. Any additional borrowings to meet shortfalls in internal generation—which, as shown above, are not unlikely—will further worsen the equity debt ratio. Such an equity debt ratio is obviously against sound principles and would not be desirable. Such a scheme of finance cannot be supported by the Commission.

^{4.15} The applicants submitted the scheme of finance for the Systronics Division only and, during the course of the public hearing, maintained that the company would keep the finance of this division separate from the other divisions. In view of these facts, the applicants were asked if they would be willing to float a separate company for Systronics so that the separate financial identity of the division could be given a proper legal frame-work. The representatives stated that there was no need for a separate company and that such a condition would not be acceptable to them. This alternative was also not acceptable to them on the ground of heavy costs of

servicing the shareholders of a separate company and increase in other overheads. The only alternative then left to bring the equity debt ratio to a reasonable level is the issue of new share capital. This is also necessary in view of our analysis of the estimates of internal finance provided by the applicants.

Outside Finance Necessary

- 4.16 It appears to us that the Scheme of Finance presented by the applicants has been so devised as to show that no outside finance is likely to be required for the project. In our view, such an approach is neither realistic nor justifiable. It has been indicated in the analysis that we have made of the applicants, Scheme of Finance that the schame—and even the revised version of it—is based on untenable assumptions about the profitability of the Company as a whole from existing lines of production and also about the prices to be charged and the profitability that would be realised regarding the proposed line of production. In spite of these points being indicated to the applicants at the public hearing, they have persisted in presenting a scheme of finance which carefully avoids any recourse to additional outside finance. While it would not be either appropriate or possible for the Commission to work out an alternative scheme of finance, it is quite clear to us that internal generation of funds cannot be relied upon to the extent that the applicants' scheme of finance implies, and that therefore a substantial amount of outside finance would be necessary.
- 4.17 In this connection, it should also be noted that the applicants' proposal, if accepted, would put them head and shoulders above all the existing and intending producers of EPMs. A size of 1500 per annum which the applicants expect to reach within a short period would be much above the size of all the other producers together. We have decided to support this mainly because we are convinced that permitting such a size from the very inception would give rise to economies of scale in production, purchases and sales as well as (and this is very important) the R & D effort. But at the same time, it would be necessary to make sure that the applicants do not exploit the market dominance that this will give them—that is why we do not propose to support a scheme of finance based on unduly high prices and profitability. We also think it necessary that when the applicants are being given a major potential of development which would make them the most important producers in this line, they should no longer be a family owned and controlled concern as they are at present. It is therefore appropriate that fresh capital should be issued in such a manner as to reduce the family control and ownership of this concern. This also fits in with the need for outside finance which in our view is obvious.
- 4.18 The present share capital of the company is Rs. 26 lakhs divided into Rs. 21 lakhs ordinary shares and Rs. 5 lakhs preference shares. In view of the considerations that we have indicated earlier, we recommend that Sarabhai Sons Private Ltd. should issue fresh capital of Rs. 26 lakhs out of which Rs. 21 lakhs should be in the form of ordinary shares. The fresh issue should be made available in preference to public financial institutions (including State Government institutions) and the general public. The existing shareholders as well as the Sarabhai family whose members control the shares of the holding company should agree not to take up any shares in this fresh issue and necessary steps under the Companies Act may be taken for that purpose. Whatever amount is required over and above this additional share capital may be obtained by way of medium term and short term loans.

CHAPTER V

CONCLUSIONS & RECOMMENDATIONS

- 5.0 The present installed capacity of the three existing units is 500 EPMs per annum. They are programmed to have an ultimate installed capacity of 1000 EPMs. Shri Arjun Kapur has been allowed foreign collaboration to manufacture 1,500 electrofax machines, though he is likely to raise his capacity, as reported to the Commission, to 2,000 pieces. Thus, the overall likely capacity to be established in the near future (3 or 4 years) works out to 3,000 photocopying machines of both the types. As against this, the current annual demand has been estimated at 3,000 pieces which is likely to increase to 5,000 machines at the end of 5 years. As such even after allowing Systronics to establish a capacity of 1,500 EPMs, there will be a gap of 500 machines. The latter figure is likely to be larger if we take into consideration the fact that Shri Arjun Kapur is committed to export 150 electrofax machines per annum. Consequently, there will still be room for the establishment of additional capacity which can be taken care of either through the expansion of the three existing units or by establishment of new units.
- 5.1 The Commission has carefully examined the organisation and functioning of Systronics. We were favourably impressed by the Research and Development work that has been established by Systronics and the product development that has already been achieved. The association of Systronics with the Sarabhai Electronic Research Centre, which is engaged in carrying out the long term research on various electronic problems, is also likely to be very helpful in the further development of this industry. The work already done by Systronics for the production of prototypes of EPMs also impressed us favourably. As it has been stated by the NPL, Systronics "have fabricated an elegant and compact prototype as their first commercial model which speaks for its high sophistication and competency to manufacture such machines".
- 5.2 Taking into account these special characteristics of Systronics, the economies of scale likely to accrue as a result of organising production at a size of 1500 machines per annum and the overall demand and supply prospects, the Commission considers it appropriate to recommend that Systronics may be permitted to establish the capacity asked for by them. While making this recommendation, we are aware that this industry is not included in the core or heavy investment sectors and therefore normally a larger industrial house should not be permitted to enter this line of production. The representative of the Ministry of Industrial Development draw the Commissions attention at the public hearing to the point that in such cases normally an export obligation to the extent of 60 per cent of annual output is imposed. It is not only our hope but even expectation that, with the R & D organisation and manufacturing competence that the applicants have shown, they would be in a position to produce EPMs of a continuously improving type on efficient and economic lines. Like in many other lines of electronics, with the cheaper cost of Indian Labour, the prices of the EPMs in India should prove to be a great comparative advantage for export of these machines. We therefore have a good expectation that an export market in these machines will be opened up within a short time. This however should not be made an obligation at this stage as the industry is yet to be established and much technological leeway is to be made up. We also think it important in the interest of satisfying what is bound to be an expanding domestic market, that efficient and economical production of these machines should be initially encouraged in the country before we can think of exports as an obligation.
- 5.3 At the same time, we are convinced that it is not appropriate that a closely held private company should be permitted to maintain control over a unit which will have a great potential for development in the future on the lines supported by us. It is therefore necessary that the approval should be given only on the condition that:—
 - (i) Sarabhai Sons Pvt. Ltd. is converted into a public company, and that,

(ii) fresh ordinary capital of Rs. 21 lakhs is issued in preference to public financial institutions and members of the public; the present shareholders of Sarabhai Sons Pvt. Ltd. as well as those of Sarabhai M. Chemicals Pvt. Ltd., the holding company, and their relatives should be excluded from contributing to the fresh issue.

It would be appropriate to approve the application only on these conditions.

(Sd.)
D. SUBRAMANIAN
(Member)
(Sd.)
H.K. PARANJAPE

(Member)

New Delhi Dated November 30, 1972

APPENDIX I

Gross Profits and Sales for the company as a whole (Sarabhai Sons Pvt. Ltd.) and Systronics Division

(Rs. in lakhs)

Year					Sales—	Total	Gross I	Profits	Percentage Profit	
					Systronics Division	Income of the Company	Systronics Division	Company as a whole		Total Income—
						सन्दर्भव ज	पत			Company
1					2	3	4	5	6	7
1966-67		•		•	2.58	6.31	0.68	3.58	26	57
1967-68			•	•	11.68	16.04	1.71	2.25	15	14
1968-69		•	•		15.24	21.49	3.01	1.39	20	6
1969-70		•			15.55	94.18	4.06	2.64	26	3
1970-71	•	•			21.14	163.78	5.38	1.83	26	1
1971 - 72 (1	un-aı	ıdited)			30.80	239.67	9.20	13.84	30	6
1972-73		•			48.00	NA	11.76	NA	25	NA
1973-74		•			60.00	NA	14.86	NA	25	NA
197 4- 75	•	•		•	78.00	NA	19.23	NA	25	NA
1975-76		•			100.00	NA	26.44	NA	26	NA

Note:— Figures up to 1971-72 are actuals, for 1972-73 budgeted and for 1973-74 to 1975-76 projected.

NA - Not available.

Source :- Applicant Company.

Appendix II SYSTRONICS

(A Division of Sarabhai Sons Pvt. Ltd.)

Scheme of Finance for Manufacture of Photocopying Machine

(Rs. in lakhs)

-						1	972-73	1973-74	1974-75	1975-76	
Existing lines Sources of Funds											
Pretax Profit .	•						8.86	12.87	17.33	24.96	
Depreciation .			•	•			2.17	1.86	1.90	1.48	
Development Rebate		•	•	•	•	•	0.73	0.13	• •		
Term Loan .			•.			•	15.00	• •	••		
Current Loan .	•		•		•		9.91	6.50	7.68	7.01	
			TOTAL	RECEI	PTS		36.67	21.36	26.91	33.45	
Uses of Funds				50	Fai	1	λ.				
Capital Expenditure				6			8.53	2.39	2.90	1.90	
Working Capital	•			68			7.80	8.11	7.59	11.90	
Repayment of Term I	Loan			40	T		2.00	2.00	2.00	2.00	
Taxes			•	. 1	AY Y	183	4.87	7.22	9.89	14.48	
			TOTAL	Раум	ENTS		23.20	19.72	22.38	30.28	
Surplus (Deficit)	• .			स	यमेव	नयन	13.47	1.64	4.53	3.17	
Photocopying Machine I Sources of Funds	Project										
Pretax Profit .			•		•	•	• •	6.50	40.00	105.00	
Depreciation .			•	•		•	••	1.00	1.50	2.00	
Development Rebate				•		•		2.50			
Current Loan .			•	•	•		2.00	10.00	9.00	2 9 .00	
			TOTAL	RECE	IPTS		15.47	21.64	55.03	139.17	
Uses of Funds											
Capital Expenditure			•	•			10.50	4.50	20.00	25.00	
Working Capital					•		3.00	13.00	12.00	39.00	
Taxes			•					3.60	22.00		
			TOTAL	Рачм	ENTS		13.50	21.10	54.00	125.50	
Combined Surplus				•	•		1.97	0.54	1.03	13.67	
Cumulative Surplus							1.97	2.51	3.54	17.21	

Source: - Applicant Company.

APPENDIX III

SYSTRONICS

(A Division of Sarabhai Sons Private Limited)

Revised Scheme of Finance for manufacture of Photocopying Machines

(Rs. in lakhs)

										. III lakiis
							1972-73	1973-74	1974-75	1975-76
Existing Lines						-				
Sources of Funds										
Pretax Profit .					•		8.86	12.87	17.33	24.96
Depreciation .					•		2.17	1.86	1.90	1.48
Development Rebate			•	•.	•	•	0.73	0.13	• •	
Term Loan .					•	•	15.00	• •		
Current Loan .	•	•		•	•	•	9.91	6.50	7.68	7.01
						_	36.67	21.36	26.91	23.45
Uses of Funds						•				
Capital Expenditure							8.53	2.39	2.90	1.90
Working Capital							7.80	8.11	7.59	11.90
Repayment of Term I	₀an				mil	100	2.00	2.00	2.00	2.00
Taxes	•				GIS		4.87	7.22	9.89	14.48
							23.20	19.72	22.38	30.28
Surplus (Deficit)		•			- Chil		13.47	1.64	4.53	3.1
Photocopying Machine 1 Sources of Funds	Project				11	4	18			
Pretax Profit as per at	tachec	l state	mer	it .	ALT:		11727	10.18	28.74	58.7
Depreciation .					(idea)			1.00	1.50	2.0
Development Rebate					-	-	2000	2.50		
Current Loan .					440	49	2.00	10.00	9.00	29.0
		Тот	ΆĻ	Reci	EIPTS	•	2.00	23.68	39.24	89.7
Uses of Funds							:			
Capital Expenditure		•					10.50	4.50	20.00	25.0
Working Capital							3.00	13.00	12.00	39.0
Tax (after tax holiday due).	& on	the ba	asis	of as	and wh	nen	••	5.00	14.00	30.0
Total payments .	_						13.50	22.50	46.00	94.0
Surplus (Deficit)	•	•	•	•	•	•	(11.50)	1.18	(6.76)	(4.25)
Combined Surplus (I	·)eficit)	•	•	•	i.	Ī	1.97	2.82	(2.23)	(1.08
Cumulative Surplus (•	•		1.97	4.79	2.56	1.4
Photocopying Machines										
Sales (Nos) .			_				* s. 4	240	560	120
Selling Price per Uni				•	-	-		19000	18000	1687
Sales (Value) .	170.	•	•	•	•	•	• •	45.60	100.80	202.5
Gross Profit 30%	•	•	•	•	•		• •	13.68	30.24	60.7
Depreciation .	•	•	•	•	•	•	• •	1.00	1.50	2.0
D.R.	•	•	•	•	•	•	• •	2.50		
Net Profit Pretax	•	•	•	•	•	•	• •	10.18	28.74	58. <i>7</i>
THE TIME TICKS	•	•	-	•	•	•	- •		· -	=

Source: Applicant Company.

BEFORE THE CENTRAL GOVERNMENT

In the matter of the Notice under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969

AND

In the matter of the proposal from M/s. Systronics (A Division of Sarabhai Sons Pvt. Ltd.) for effecting substantial expansion by manufacture of Electrostatic Photocopying Machines.

M/s. Systronics—A division of Sarabhai Sons Pvt. Limited (hereinafter referred to as "the applicant company") gave on 22nd March 1972 a notice dated the 27th July, 1971 under section 21 of the Monopolies and Restrictive Trade Practices Act (hereinafter referred to as the "the Act") to effect substantial expansion of its activities by undertaking the manufacture of 1,500 numbers of Electrostatic Photocopying Machines per annum. The destimated capital outlay of Rs. 70 lakhs (including working capital requirements of Rs. 15 lakhs) was proposed to be financed from the following sources:—

- (i) Deferred payment supply of machines and equipment.
- (ii) Internal resources.
- (iii) Borrowings from Company's Bankers to the extent of 75% of inventories.
- (iv) Shareholders.

Subsequently during the course of hearing held in terms of section 29 of the Act, it was clarified that the project cost would be Rs. 30 lakhs instead of Rs. 55 lakhs as originally envisaged.

- 2. As required under the relevant Rules framed under the Act, two advertisements, one in the "Economic Times" dated the 29th April, 1972 and other in the "Indian Trade Journal" dated the 3rd May, 1972—were published. An objection against the proposal was received from M/s. Das Reprographics Limited of Calcutta.
- 3. In the meanwhile on the basis of the information available to it, the Central Government came to the conclusion that no order under Section 21(3)(a) of the Act could be made in this case without a further inquiry. Accordingly, in exercise of its powers conferred by Clause (b) of subsection (3) of Section 21 of the Act, the Central Government referred the said notice under section 21 of the Act from the applicant company to the Monopolies and Restrictive Trade Practices Commission (hereinafter referred to as the "the Commission") for further inquiry and report. The Commission recommended approval of the proposal subject to the certain conditions.
- 4. An opportunity of being heard, in terms of section 29 of the Act, was given to the applicant company and to the following persons/companies who had represented before the Government and the Commission:—
 - (i) Shri Govind Lal B. Shah, Ahmedabad.
 - (ii) Koron Business Machine Limited, Bombay.
 - (iii) Das Reprographics Private Limited, Calcutta.
 - (iv) Shri Deepak Kanagalokar, Poona.

However, only Koron Business Machine Limited availed of the said opportunity of being heard. Its objections were broadly as follows:—

- (a) The scheme of finance of the applicant company was unwieldy;
- (b) The Small Scale Industry was already engaged in the production of this item;
- (c) The demand for these machines in the country was not enough to allow expansion of the applicant company; and
- (d) It would result in locking up of national resources in respect of items essentially suitable for Small Scale Industries.

These contentions were refuted by the representatives of the company, who said that the Koron Business Machines Limited were a wholly-owned subsidiary of Koros (India) Limited which had been listed under the Birla Group classified as a larger house by the Dutt Committee. They further stated that M/s. Systronics, which was a division of Sarabhai Sons. Pvt. Limited was also registered as a small scale unit. In regard to the issue of fresh capital of Rs. 21 lakhs as recommended by the Commission as one of the conditions of approval, the representative of the applicant company stated that project cost would be only Rs. 30 lakhs instead of Rs. 55 lakhs as originally envisaged. The original estimates were based on the scheme that the project in question would be an independent one but it was susequently decided to take up the manufacture of the item involved in the existing undertaking. Consequently, the extra capital expenditure required would be much lower. They, therefore, considered the additional issue of capital as unnecessary.

- 5. Having taken into consideration the recommendations made by the Commission as also the views put forth by the applicant company and the interested party at the time of the hearing, Central Government is satisfied, for the following reasons, that it is expedient in the public interest to accord approval of the proposed expansion:—
 - (i) There is room for the establishment of additional capacity for manufacture of this item.
 - (ii) The applicant company has fabricated an elegant and compact prototype as their first commercial model which spoke for its high sophistication and competency to manufacture such machines.
 - (iii) Organising production at the size of 1,500 Machines per annum would result in the economics of scale.
 - (iv) With the R & D Organisation and manufacturing competence that the applicant company has shown, it would be in a position to produce EPMs of a continuously improving type on efficient and economic lines.
 - (v) National Physical Laboratory, who have developed these machines in India, have stated that it was not possible to rely on the small scale sector for the manufacture of these machines.
- (2) As regards the scheme of finance it was considered that the aggregate capital outlay involved in this proposal as well as in another proposal of the company under section 21 of the Act for the manufacture of Electronic Digital Desk Calculators should be taken into account. The Central Government feels that it would not be appropriate that a closely held private company, like the applicant company should be permitted to maintain control over a unit which would have a great potential for development in the future. It was, therefore, considered necessary that approval to the proposal of the applicant company for manufacture of 1500 numbers of EMPs per annum should be accorded subject to the conditions stated hereinafter in the Order.

ORDER

In exercise of its powers under Section 21(3)(c) of the Monopolies and Restrictive Trade Practices Act, 1969, read with section 54 thereof, the Central Government hereby accords approval to the proposal of M/s. Systronics (A Division of Sarabhai Sons Pvt. Ltd.) for manufacture of 1,500 (fifteen hundred) numbers of Electrostatic Photocopying Machines per annum subject to the conditions that might be stipulated in the letter of intent and further subject to the following conditions:—

- (i) Sarabhai Sons Private Limited shall be converted into a Public Limited Company.
- (ii) The said public company shall get itself enlisted on the Stock Exchange.
- (iii) The applicant company shall issue fresh ordinary shares of Rs. 31.50 lakhs to the public financial institutions and to the members of the public in preference to others, to meet part of the cost of the present project as well as of its proposal for manufacture of Electronic Digital Desk Calculators.
- (iv) The present shareholders of the applicant company, as well as those of Sarabhai M. Chemicals Private Limited the holding company, and their relatives shall not contribute towards the said fresh ordinary shares.

(Sd.)

(A.K. GHOSH)

Under Secretary to the Government of India

New Delhi-1 Dated the 20th July, 1973.



REPORT UNDER SECTION 21(3)(b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF TATA ENGINEERING AND LOCOMOTIVE COMPANY LIMITED, BOMBAY



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MONOPOLIES AND RESTRICTIVE TRADE PRACTICES COMMISSION.

Report of the M.R.T.P. Commission under section 21(3) (b) of the M.R.T.P. Act, 1969—In the case of Messrs. Tata Engineering and Locomotive Company Limited, Bombay.

INTRODUCTION

M/s. Tata Engineering and Locomotive Company Limited, Bombay (hereinafter called Telco. for the sake of brevity) is a company manufacturing commercial vehicles at Jamshedpur. The company submitted an application dated 29-12-1970 to the Department of Company Affairs, Government of India, giving notice of its intention to undertake substantial expansion in the number of commercial vehicles manufactured by the company. The application was referred to the M.R.T.P. Commission under section 21(3)(b) of the M.R.T.P. Act, 1969 by the Department of Company Affairs by means of its letter No. 1(9)/71-M(I), dated the 16th June, 1971.

In terms of section 30 of the M.R.T.P. Act, the report was to be submitted within 90 days of the receipt of the reference from the Government in the Commission's office. However, as considerable information had to be gathered from various Government and private sources, the last date for submission of the report was extended upto 10th December, 1971.

Control of the Contro

The application of the company contained the following details of the scheme of expansion:

1. (1) Description of goods to be produced:

Tata Commercial Vehicles:		
Present installed capacity	•	24,000 Nos.
Expansion proposed	•.	12,000 Nos.
Annual installed capacity after expansion .	•	36,000 Nos.
Estimated capital outlay on the expansion scheme:		
Land and Building		Rs. 576 lakhs
Plant and Machinery		Rs. 2994 lakhs
Raw materials etc.	• • • .	Rs. 2300 lakhs
		Rs. 5870 lakhs
Foreign Exchange requirements for import of plante equip	pment.	Rs. 1050 lakhs
Raw materials for the six year period of expansion .		Rs. 206 lakhs
Components for the six year period		Rs. 206 lakhs
		Rs. 1462 lakhs

The proposal also included the establishment of an alloy iron foundry at Poona with a capacity of 10,000 tonnes per annum.

1. (2) Sources of Finance:-

Funds expected as a result of amalgamation of the company with the Central Bank of India	Rs. 1500 lakhs
Foreign exchange loan to be negotiated for imported plant and equipment	Rs. 1050 lakhs
Internal resources:	
(a) Depreciation Rs. 2160 lakhs	

(b)	Development Rebate Reserves	•	•	•	•	Rs.	560 lakhs	
(c)	Reserves .		_	_		Rs.	600 lakhs	

Rs. 3320 lakhs

1,844.82

1,844.89

0.07

Total . Rs. 5870 lakhs

The company stated in its application that even though it expected to meet the finance required for the expansion schemes from the sources mentioned above, it might be necessary during the intervening years to resort to short-term borrowings from banks to meet the working capital needs to the extent of Rs. 6 crores. The company also stated that it was going to issue fresh capital only to the share-holders of the residual Central Bank of India Limited in terms of the proposed Scheme of Amalgamation between the Bank and the Company. The company did not propose to issue any other fresh capital. The company claimed that it was not interconnected with any other undertaking.

1. (3) Capital Structure—The authorised capital of the company as at 31-3-1970 was Rs. 2,000 lakhs as follows:—

		No. of shares	Value Rs. in lakhs
	5% Cumulative preference shares of Rs. 100/- each	2,00,000	200.00
	9% Cumulative redeemable 'A' preference shares of Rs. 100/- each	2,10,000	210.00
iii)	Ordinary shares of Rs. 100/- each .	5,05,000	1,505.00
i v)	Unclassified shares of Rs. 100/- each .	85,000	85.00
	(M.C.)		2,000.00
	ਸਟਾਸ਼ੇਰ ਤੁਹੜੇ		
Γhe	subscribed capital, however, was Rs. 1844.89 la	khs as follows :	
."he	subscribed capital, however, was Rs. 1844.89 la	khs as follows:	Value Rs. in lakhs
	subscribed capital, however, was Rs. 1844.89 la (i) 5% Cumulative preference shares of Rs. 100/- each		Value Rs. in lakhs
	(i) 5% Cumulative preference shares	No. of shares	
	 (i) 5% Cumulative preference shares of Rs. 100/- each (ii) 9% Cumulative Redeemable shares 'A' preference shares of Rs. 100/- 	No. of shares 2,00,000	200.00
Γhe a)	 (i) 5% Cumulative preference shares of Rs. 100/- each (ii) 9% Cumulative Redeemable shares 'A' preference shares of Rs. 100/- each fully paid up (iii) Ordinary shares of Rs. 100/- each 	No. of shares 2,00,000 2,10,000	200.00

The gross value of the company's assets as on 31-3-1970 was Rs. 97.21 crores.

TOTAL .

(b) Capital suspense pending allotment Share monies

1. (4) Shareholding Pattern: The share-holding in the company is broad based and the details of the shareholders having voting power in excess of 5% are as follows:—

;	Shares held by	Equity shares	'A' Pref. Shares	% of total voting power
1.	Schedule Banks	87,654	20,048	6.11%
	Financial Institutions in the public sector (LIC, SICOM, UTI)	147,976	20,121	10.31%
3.	Foreign Shareholders .	229,619	472	16%
	Other shareholders having more than 5% voting power TISCO .	259,000	••	18.05%
		724,249		50.47%

^{1. (5)} Amalgamation of the Central Bank of India with TELCO:— The Amalgamation of the Central Bank of India with Telco was approved by the judgement of the Bombay High Court dated 17th March, 1971. Under the scheme, the following allotment of shares would be made to the shareholders of the Central Bank of India Limited.

Ord. Shares of Rs. 100/- each Value Rs. 75 lakhs
Pref. shares of Rs. 100/- each 225 lakhs

The shareholders would have to pay a premium of Rs. 75 lakhs. They would also be allotted debentures worth Rs. 1125 lakhs. Thus, the total capital to be brought into the books of Telco., on the amalgamation would be Rs. 1500 lakhs.

1. (6) Market share and phasing of additional production:— According to the company's application dated 29-12-70, the market share of the company in 1969-70 was 61%. This was based on the figures of production of commercial vehicles compiled by the Association of Automobile Manufacturers.

The company's production of Commercial vehicles in 1969-70 was 20,306. The company produced 25,051 vehicles in 1970-71 and hoped to reach a figure of 36,000 commercial vehicles per annum on completion of the expansion programme in 1976-77.

As the applicant company's market share was, even according to the company, 61% in the year 1969-70, the Commission decided that it was necessary to undertake detailed enquiries with regard to the targets prescribed for commercial vehicles by the Planning Commission and the actual production of commercial vehicles by various producers in the country. Accordingly, letters were addressed to the Ministry of Industrial Development and Internal Trade Planning Commission and the D.G.T.D. By its letter dated 13th July, 1971 the Planning Commission replied that the target for the Fourth Five Year Plan for commercial vehicles was fixed at the following figures:—

Industry	1969-70	1970-71	71-72	72-73	73-74	Total	
Commercial Vehicles (Trucks and Buses) Medium, Medi- um Heavy, Extra Heavy Vehicles Light Vehicles	42,000 6,000	49,000 7,000	57,000 8,000	66,000 9,000	75,000 10,000	289,000 40,000	
	48,000	56,000	65,000	75,000	85,000	329,000	

According to the figures available for the year 1969-70, the capacity of seven manufacturing units was estimated at 58,000 Nos. while the production was 35,300 Nos. The working Group for Transport Equipment had estimated the capacity target for 1973-74 to be 90,000 Nos. in order to meet the target of 85,000 Nos. The Ministry of Industrial Development furnished the following information by its letter dated 26th July, 1971.

Year								Total production of Commercial vehicles (Nos.)	Production of Telco (Nos.)
1961			•		•		•	24,788	12,000
1962	•		•					26,214	12,196
1963								28,173	12,424
1964								33,472	14,367
1965								37,229	17,328
1966						•		34,199	18,900
1967		•					•	31,462	19,140
1968								34,937	21,669
1969								35,161	20,497
1970								35,829	24,463
1971	(Upto	Ma	y)	•	2	28	200	16,131	10,444

According to the Ministry, the total licensed capacity for commercial vehicles was 73,400 Nosand installed capacity was 62,000 Nos. per annum.

- 2. Existing Manufacturers:—The existing manufacturers of Commercial Vehicles were stated to be:
 - 1. M/s. Telco, Bombay.
 - 2. M/s. Ashok Leyland, Madras.
 - 3. M/s. Hindustan Motors Limited, Calcutta.
 - 4. M/s. Premier Automobiles Limited, Bombay.
 - 5. M/s. Standard Motor Products of India Ltd., Madras.
 - 6. M/s. Mahindra & Mahindra Ltd., Bombay.
 - 7. M/s. Bajaj Tempo Limited, Poona.

The actual production of the above manufactures during the year 1968, 1969 and 1970 has been shown by the Ministry of Industrial Development at the following figures.

	1968	1969	1970
I. Telco	21,669	20,497	24,463
2. Ashok Leyland	4,211	4,861	5,203
3. Hindustan Motors	1,981	1,755	1,321
Premier Automobiles	3,355	3,563	4,923
5. Standard Motor Products of India	,	,	-,,-
Limited	448	421	158 (upto May only)
Mahindra and Mahindra	1,453	1,483	966
Bajaj Tempo Limited	1,641	. 2,578	3,501

Among the seven producers of commercial vehicles, M/s. Mahindra & Mahindra produce only jeeps and M/s. Bajaj Tempo Ltd. produce only Tempos. Standard Motors was producing a limited quantity of one ton trucks and besides the company was bound by a prolonged strike. Only the three parties mentioned below were producing trucks comparable to the production of the applicant company:—

- (i) Premier Automobiles Limited, Bombay.
- (ii) Hindustan Motors Limited, Hooghly.
- (iii) Ashok Leyland Limited, Madras.

Details regarding the proposal for expansion by Telco were communicated to these companies on 30th June, 1971 and they were asked to offer their comments on the proposal. They were also asked to furnish details about their own installed capacity and production, etc. The replied received from the above three manufacturers are summarised below:—

2. (1) Premier Automobiles Ltd. (Letter dated 14-9-71): The share of Telco in the production of commercial vehicles other than jeeps in the year 1970 was 63%. The installed capacity in the industry was quite adequate to meet the present demand. However, there was some amount of idle capacity in certain units. Therefore, before licensing additional capacity for the types of vehicles already being produced in the country, the existing units should be allowed to operate up to their installed capacity.

The following figures were given about the licensed and installed capacities and actual production and exports of the company:—

Production of commercial vehicles by Premier Auto

Year					Sanctioned capacity	Installed capacity	Actual production
1960-61	•			W	7,500	7,500	6,184
1961-62			•	12	7,500	7,500	5,138
1962-63			•	- A-1	7,500	7,500	5,780
1963-64				Return	15,000	7,500	6,907
1964-65				-	15,000	7,500	10,203
1965-66		•		सह	15,000	7,500	6,726
1966-67					15,000	6,000	3,765
1967-68	•				15,000	6,000	2,877
1968-69				•	15,000	6,000	3,794
1969-70					15,000	6,000	3,957

Exports made by M/s. Premier Automobiles Limited

Year								· .	No. of trucks	Value in lakh: Rs.
1960-61		•	•	•			•			••
1961-62		•		•	•	•			• •	• •
1962-63						•			• •	
1963-64									• •	• •
1964-65	•	•					•			• •
1965-66						•			1	0.16
1966-67	•			•	•					• •
1967-68						•			1	0.45
1968-69		•		•					17	3.87
1969-70							•			• •

^{*}This includes Army Power Wagons which were only assembled by the company. 34—8 Mof LJ&CA/ND/79

The Company had entered into the following foreign collaboration agreements for the manufacture of Commercial vehicles:

- (i) Agreement dated 1-10-1962 with Chrysler Corpn. U.S.A. for the manufacture of Chrysler Group of Commercial vehicles i.e. Dodge and Fargo Commercial Vehicles. This agreement has been renewed from 1-1-1968 for the development and manufacture of commercial vehicles with petrol driven engines.
- (ii) Agreement dated 1-10-1955 with North American Rockwell Corp. U.S.A. for the manufacture of Axles and their components required for commercial vehicles. This agreement expired on 1-10-1970. Extension of the agreement is under negotiation.
- (iii) Agreement dated 5-10-1968 with Messrs. Henry Meadows Limited, U.K. for the manufacture of Meadows diesel engines and their components. The agreement has been renewed upto 4-10-1972.
- 2. (2) M/s. Hindustan Motors Limited —(Letter dated 29th July, 1971). —The company did not have any remarks about the production proposals of Telco to produce 9000 heavy vehicles. As regards Telco's proposals for manufacturing 3,000 off highway vehicles, Hindustan Motors understood the reference as off highway dumpers and pointed out that Hindustan Motors was licensed for 240 trucks per year of this type. Further, some capacity had been given to Bharat Earthmovers. Therefore, in the opinion of Hindustan Motors, there would be no need to create further capacity for 3,000 such vehicles per year.

The company was licensed for the manufacture of 6000 trucks in 1959. This was increased to 15,000 in 1963. The Bedford engine was the original fitment. The company was not allowed to use Bedford engines but required to use Perkins Engines in lieu thereof. The latter turned out to be unsuitable and affected the sales. The competitors had the advantage of investment by foreign collaborators and the use of engine of original specifications. The company took up the matter with Government of India and it was ultimately allowed to manufacture an engine of original specification for the Bedford trucks. For this purpose the company installed a plant at a cost of 23 million Dollers besides rupee expenditure. The company had some trouble with the fuel injection as it was asked to use local fuel injection which was found unsuitable. Finally, the company was allowed to import these components in small numbers. Therefore, the company had a large idle capacity in the plant in spite of large investment.

The following figures were given about the licensed and installed capacity, actual production and experts:—

Year					,	Licensed Cap.	Installed cap.	Actual produc
1960-61			•		•	6,000	6,000	7,012
1961-62	•,					6,000	6,000	4,000
1962-63	•	•	•		•	6,000	6,000	5,000
1963-64	•		•		•	15,000	10,500	5,417
1964-65	•	•				,,	,,	5,717
1965-66				• .		**	,,	4,000
1966-67	¢					,,	,,	3,063
1967-68	•		•			,,	,,	1,291
1968-69					•	,,	,,,	2,006
196 9- 70						,,	,,	1,525

Exports made by Hindustan Motors

Year							Units	Value in lakhs
1960-68	•	•	•		•		Nil	Nil
1968-69	•	•	•		•		83	18.48
1969-70				•		• "	167	50.79

The Company has entered into the following foreign collaboration agreements for the manufacture of Commercial Vehicle:

Agreement dated 22nd May, 1957 with Messrs. General Motors Corporation, U.S.A. for the assembly, sale and manufacture of G.M.C., Chevrolet and Bedford trucks.

Agreement dated 30th December, 1959 with Vauzhall Motors Limited, U.K. for progressive manufacture of Bedford Trucks in India.

2. (3) Messrs. Ashok Leyland Limited (Letter dated the 30th July, 1971).— The company did not have any comments on Telco's proposal to manufacture 3,000 off highway vehicles or the setting up a 10,000 tonne capacity per annum alloy iron foundry at Poona. As regards the proposal to manufacture 9000 medium and heavier vehicles at Poona, it suggested that Telco should specify the exact number of Medium vehicles and Heavier vehicles indicating the tonnage and pay-load in each case. Ashok Leyland had no objection to Telco's manufacturing 9000 additional vehicles in the 5 to 7½ tonne payloads category which they were already manufacturing at Jamshedpur. However, if Telco were licensed to manufacture 9000 vehicles of more than 7½ tonne payload, it was likely to create a monopoly in their favour as in the opinion of Ashok Leyland, the demand for such vehicles was not more than 1000 per annum and was not likely to increase beyond 2,000 vehicles by the end of Fourth Five Year Plan. Ashok Leyland was already licensed for the production of such vehicles upto 1,000 vehicles per annum. Therefore, Ashok Leyland suggested that Telco should be restricted to a production of 1,000 vehicles per annum of trucks with a payload of more than 7½ tonnes. Ashok Leyland also remarked that the estimated capital outlay of 58.7 crores and foreign exchange of 14.62 crores appeared to be on the high side.

The following figures were given about the licensed and installed capacity, actual production and exports of Ashok Leyland:—

Year	· .					Licensed cap.	Installed cap.	Actual production
1960-61	•				•	6,400	6,400	2,082
1961-62			•	•	•	• • • • • • • • • • • • • • • • • • • •	,,	2,649
1962-63	•			•	•	"	>> -	2,516
1963-64						,,	,,	3,245
1964-65				•	•	,	,,,	3,795
1965-66		•				,,	,,,	3,988
1966-67		•	•			33	,,	4,087
1967-68	•				•	,,,)) -	4,222
1968-69	•		•		•	,,	••	4,427
1969-70			•		•	,,	,,	4,887
1970-71						>>	,,	4,857

The company has entered into a collaboration agreement for a period of 20 years from 5th December, 1955 with Messrs. Leyland Motors Limited of U.K.

3. Government Departments.— Telco's letter dated 8-12-1970 showed that the company had made substantial supplies to the Defence Ministry. The Commission also understood that the Defence Ministry had established a factory at Jabalpur for the manufacture of transport vehicles. The Defenced Ministry were, therefore, requested to give their views regarding the proposed expansion for the production of commercial vehicles by Messrs. Telco. The Ministry of Defence replied by their letter dated 23rd July, 1971 that a new vehicle factory had been set up at Jabalpur for the manufacture of the Shaktiman and Nissan Trucks. The full capacity had not yet been reached; the actual figures of capacity and production are not given here for reasons of security. The reply of the Defence Ministry showed that the vehicles supplied by Telco had given satisfactory service.

A letter was addressed to the D.G.S&D on 28th July, 1971 calling for his remarks on the proposal of Telco for expansion. The D.G.S. & D. informed the Commission by his letter dated 16-8-1971 that his organisation had made the following purchase of Commercial Vehicles of various makes from different manufacturers as shown below:—

Year				 		Telco	Ashok Leyland	Premier Auto	Hindustan Motors
1966		•	•	•		5,982	109	406	1,133
1967	•				•	216	16	422	233
1968		•			•	204	16	301	106
1969					- 1	2,397	454	400	118
1970					400	3,861	814	847	321

The D.G.S. & D. was of the opinion that as far as 5 tonne vehicle was concerned, there was need for further capacity. He was not sure whether there would be adequate demand for the heavier type which was already being manufactured by Messrs. Ashok Leyland. The figures given above show that Government indentors have on the whole preferred Telco Vehicles to vehicles manufactured by other manufacturers.

- 4. Other comments regarding expansion.— (1) The Secretary of the All India Automobile and Ancillary Industries Association was addressed by the Commission by means of a letter dated 24th July, 1971 and asked to give his comments with regard to the proposal of Telco. The Association informed the Commission that most of its members had been supplying parts and components to Messrs. Telco regularly and that Messrs. Telco had a constructive approach and encouraged the growth of ancillary industries. Therefore, the Association supported the expansion programme of Telco. The Association furnished a list of items which should in its opinion be passed on to the ancillary industry by Telco. Our colleague Dr. Paranjape had also an opportunity of a personal discussion with the representatives of the Association viz., the President and the Secretary on 10th August, 1971. During the discussion, the representatives stated that Telco attached great importance to the quality of the ancillary products. Telco, not only emphasised on quality but it also offered assistance to the smaller ancillary industries in the matter of achieving quality. The result has been that many ancillary are now themselves conscious of the importance of quality control. Many also find that it is possible to export their products as a result of their developing high quality of production.
- 4(2). The Commission considered it necessary to obtain the reactions of actual users of Tata Trucks and Buses. The Commission accordingly addressed a letter dated 26th July, 1971 to 45 fleet owners as detailed in Annexure-I, asking for their comments on Telco's proposal for expansion.

Replies were received from 22 parties. An analysis of the replies showed that in the matter of trucks, the fleet owners preferred Telco trucks, but for buses they preferred the chassis manufactured by Ashok Leyland. The owners generally supported the proposal of Telco. However, there was a general complaint that genuine spare parts were not available in the required numbers. This point has been dealt with in a subsequent part of the report relating to the public hearing.

4(3). There is an Association of India Automobile Manufacturers at Bombay. The Commission addressed a letter dated 5th July, 1971 to the Secretary of the Association with regard

to the proposal of Telco. The Secretary of the Association supported Telco's proposal on the following grounds:— (Letter dated 14th July, 1971).

- (i) The target for the automobile industry on the Fourth Five Year Plan was to produce 85,000 commercial vehicles. The existing installed capacity in the country was only 57,600. Therefore, there was an urgent need for increasing the capacity in the industry.
- (ii) The Fourth Plan estimated that the total goods traffic by road transport would increase from about 40,000 million tonne k.m. in 1968-69 to about 84,000 million tonne k.m. in 1973-74. In order to cater for the estimated increase in traffic, the number of trucks on the road would need to be increased from 301,000 in 1968-69 to about 470,000 at the end of 1973-74. The Fourth Plan estimated that the passenger traffic would increase from 98000 million passenger k.m. in 1968-69 to 140,000 million passenger k.m. in 1973-74. For achieving this, the number of buses would have to be increased from 85,000 to 1,15,000.
- (iii) Starting with a modest beginning in the year 1964-65, Telco's exports had grown to over Rs. 11 crores in the year 1970-71 which was the highest performance in this area for an engineering unit. Their products had been exported to Aden, Afghanistan, Bulgaria, Cairo, Ceylon, Czekoslovakia, Indonasia, Sudan, Yugoslavia and Nepal.
- (iv) The Tata vehicles had a high quality, sturdiness and in-built reliability and were therefore popular.
- (v) The gestation period for establishing manufacturing facilities for a commercial vehicle was 4 to 5 years. Therefore, it was necessary to approve Tata's proposals for expansion urgently. The Alloy Iron Foundry proposed to be set up in Poona by Messrs. Telco was intended to produce intricate automobile castings for which there was no capacity available in the country at present. In view of the high investment involved, it was unlikely that any other party would set up such large foundry facilities. There would be considerable foreign exchange savings as well as foreign exchange earnings if the project was implemented.
- (vi) The proposed expansion had a defence angle and was important both from the national as well as the strategic points and therefore deserved an early clearance.
- 5. Details furnished by the company:— The applicant company's market share even according to the company was 61% in the year 1969-70. The Commission felt that the company should be called upon to show how its scheme for expansion would satisfy the criteria laid down under section 28 of the MRTP Act. According a letter was issued to the company on 19th July, 1971 asking for detailed information on this point as well as details of its performance in the matter of export, research and development, after sale services, etc. The commission had noticed from a report in the newspaper dated 26th July, 1971 a statement made by Shri J.R.D. Tata, Chairman of the company in regard to the accounts of the company for year 1970-71. One paragraph of the statement of Shri Tata indicated that the company's earlier hopes of financing the expansion programme entirely from internal resources might not materialise on account of recent changes in corporate taxation. The Commission by its letter dated 28th July, 1971 called upon the company to state whether the original scheme of finance required any change, and, if so, to furnish a copy of the revised scheme of finance. The company's reply to the Commission's letter dated 19th July, 1971 was received on 13-9-1971. The important points covered by these letters are summarised in the following paragraphs:

The company received its first licence dated 25th March, 1955 authorising it to manufacture 3000 commercial vehicles per year. The commencement of production was effected in the year 1954-55 and the licensed capacity was achieved in 1955-56. A licence to expand the capacity from 3000 to 6000 was given on 26-12-1955 and this capacity was achieved in 1956-57. A further expansion was sanctioned on 15-2-1958 allowing the company to raise the production from 6000 to 7200. This number was achieved in 1958-59. On 8th May, 1959 a further licence was issued raising the company's capacity to 12,000 Nos. This rate of production was achieved in 1961-62. Finally, another licence was given for expansion on 12th January. 1961 permitting the company to increase its capacity to 24,000 Nos. This level of production was achieved in 1970-71.

The detailed figures of installed capacity and actual production from 1960-61 to 1970-71 are as given below:—

Year			<u> </u>							Installed capacity	Actual production
 1960-61					•					12,000	10,435
1961-62					•					12,000	12,100
1962-63				•	•		•	•	•	12,000	12,200
1963-64				. •	•				•	12,000	12,800
1964-65				•	•	•	•		•	16,800	16,025
1965-66	•	•	•		•	•		• •		21,000	17,500
1966-67		•					•			24,000	19,135
1967-68				•	•	•	•			24,000	19,540
1968-69			•	•	•				•	24,000	22,416
1969-70		•.				•				24,000	20,306
1970-71	•		•	•	•	•	•		•	24,000	25,061

The company stated that upto the year 1963-64 it manufactured one type of vehicle viz. 5 tonne payload. Since 1964-65 the company put into production the $7\frac{1}{2}$ ton vehicles also.

- 5(1). Foreign Collaboration.— The company manufactured commercial vehicles in collaboration with Messrs. Daimler-Benz A.G. in 1954. The initial technical collaboration agreement with Daimler-Benz was for a period of 15 years. Under this agreement which came into operation on 1st April, 1954, the company received manufacturing rights, together with patents and patents rights, all drawings designs and technical information and know-how for the manufacture of commercial vehicles. The collaborator held 16% of the total issued equity of Telco. In addition to the dividends on the equity, Daimler-Benz was entitled to receive the following payments:—
 - (i) (a) A royalty during the first five years of commercial production at (a) one per cent of the net ex-works sales price of the vehicles where the company's manufacturing proportion did not exceed 50% of the vehicle; and
 - (b) One and a half per cent of the net ex-works sale price of the vehicles where the company's manufacturing proportion exceeded 50 per cent of the vehicle.
 - (ii) Seven and half per cent of the annual net profits of the Automobile Division of the company.

The royalty payment of Daimler-Benz ceased from October, 1959 and the total amount by way of royalty paid in the five year period amounted to Rs. 68.44 lakhs subject to Indian Income-tax. Payments made to Daimler-Benz since 1960-61 on account of dividends and share of profits are given as below:—

Year									Gross dividends Rs.	Share of profit Rs.
1960-61							•	.•	18,56,000	20,07,521
1961-62									18,56,000	27,70,247
1962-63			•	•	•		•		18,56,000	22,75,767
1963-64		•							21,65,440	22,63,668
1964-65	•				•				23,77,920	27,16,785
1965-66				•	•				27,06,666	33,68,073
1966-67				•			•		32,48,000	42,38,525
1967-68						•			32,48,000	29,44,195
1968-69									32,48,000	43,70,388
1969-70						•			30,24,000	,,
1970-71	•	•							32,48,000	•

The agreement with Daimler Benz expired on 31st March, 1969 and Telco was now manufacturing trucks with its own brand name of 'Tata'. After the termination of the initial collaboration agreement, the company had entered into a licensing arrangement for the manufacture in India of the higher horse power direct injection OM-352 engine which would serve as the power unit for the 10 ton vehicle to be manufactured at Poona. Under this agreement which would be for a period of five years, Telco would give a lump sum royalty of Rs. 150 lakhs to Daimler Benz in five annual equal instalments and Telco would receive from Daimler Benz all technical information, drawings, designs, manufacturing and test data with patents and patent rights etc. for the efficient and economic manufactured of this more powerful engine in India. Under this agreement, Telco is entitled to export freely the OM-352 engines or commercial vehicles fitted with these engines to any country in the world. However, for a period of eight years from 1st April, 1969, Telco cannot manufacture the OM-352 outside the Indian Union.

5(2). Export Performance.— In the licence granted to the company there was no clause regarding export performance. However, on account of the superior quality of the products manufactured by the company, the company was able on its own to effect substantial exports. Starting from a modest beginning in 1964-65, the exports reached nearly Rs. 11 crores in 1970-71. The detailed figures are as given below:—

Year			÷			Value of vehicl and spare par (Rs. in lakhs	ts
1961-62						3.6	9
1962-63	•		•	•	•	3.0	
1963-64	•	•	•	•	•	22.9	
1964-65	•				·	18.7	
1965-66		•	•			43.6	
1966-67							2
1967-68				•			2
1968-69							7
1969-70		•		•	•	700.9	2
1970-71		•	•	•		. सद्यमेन जयने . 1062.2	4
						2410.5	 55

The company was confident that after it was allowed to create additional production capacity and widen the range of its vehicles, it could achieve a level of exports of about 20 crores per annum within the next 5 to 6 years.

^{6.} Need of Expansion.—The Fourth Five Year plan has set a target of 85,000 commercial vehicles to be achieved by 1973-74. As against this, the installed capacity in 1969-70 was only 58,000 vehicles and the actual production was 35,300. Therefore, the production had to be increased by more than 100% and the installed capacity by at least 50% during the next few years. A study of the pattern of demand in the past clearly indicated that by 1975 a large portion of demand in the country would be for a heavy vehicle with about 10 tonne capacity. Between 1945 and 1955, almost the entire demand in India was concentrated on 3 tonne payload vehicles. Between 1955 and 1965, the demand shifted to 5 tonne vehicles and since 1965 the demand has been confined mainly to 7½ tonne payload vehicles. The company confidently expected that after 1975, the demand for 10 tonne vehicles would increase fairly substantially. At the same time there was also a growing requirement for road transport in the rural areas which could be met only by lighter commercial vehicles, as rural areas do not generally permit the use of heavier vehicles. Therefore, the company also proposed to manufacture 3,000 off highway vehicles for opening up rural areas and for defence requirements.

^{6(1).} Savings in Foreign Exchange.—By consistently increasing the indigenous content of the trucks, the company has helped in the saving of foreign exchange. The foreign component of the Tata Trucks was less than 1.5%.

- 6(2). Employment.— Telco was at present employing 24,700 persons. The expansion scheme would generate an additional 7000 jobs. Besides a number of jobs would be created in the ancillary industries numbering over 350 from which Telco made its purchases. In addition, it was claimed by the company that according to a report by the National Council of Economic Research each additional vehicle generated employment of about 11 persons. Therefore, the company's expansion would generate additional jobs for many lakhs.
- 6(3). Contribution to the exchequer.—Telco's direct contribution to the exchequer through taxes and excise duty had been over Rs. 250 crores, since vehicle manufacturing operations were started in 1954. In addition, it has been calculated by the Indian Road and Transport Development Association that taxes paid by a truck operator total about Rs. 11,000 per year. Thus the 24,000 trucks manufactured each year generated a tax of 26 lakhs from the truck operators on a cumulative basis from year to year. The increased production proposed by Telco would further enhance the contribution to the general revenues by the company as well as truck operators.
- 6(4). Development of ancillaries.—Telco had, from the very beginning, laid the greatest stress on development of indigenous production, both at its own works and those of several ancillary suppliers. At present the indigenous component was as much as 98.5%. The company had followed a positive policy of encouraging ancillary manufacturers by giving them assistance and technical facilities.
- 6(5). Research & Development.—Telco had achieved considerable self-reliance in vehicle development and they had placed great emphasis on building up of research, development, experimental and testing facilities. The present level of expenditure on R&D was about 1.6 crores per annum which was expected to increase quite substantially in the years to come. The company had recently introduced a new engine which give 15 H.P. extra and 15% saving in fuel consumption. This engine was developed by the company's R&D organisation. Besides, the company had developed a suitable 10 tonne vehicle, entirely with indigenous know-how, except for the design of the heavier engine which has been obtained from Messrs. Daimler-Benz. The R&D had also developed about 450 standards and helped in import substitution.
- 6(6). Development of Technical skills.—Telco had drawn up a large number of training schemes and thus, they had created a bank of technical skill in the country. In addition, Telco had also taken up the responsibility for training apprentices sent by the dealers. The company had a full-fledged training Division both at Jamshedpur and Poona. In order to avoid dislocation of work in the factory, the company had set-up special establishments for imparting instructions to the trainees. During the last 17 years, 3510 trade apprentices had been trained. The total capital expenditure incurred by the company in providing training facilities so far was Rs. 198.25 lakhs and total revenue expenditure for the training divisions in 1970-71 was Rs. 55.28 lakhs.
- 6(7). Product Quality.—The company had always insisted on the highest standards from its designers, engineers, workers and suppliers with the result that the quality of the company's products enjoyed the highest reputation in the country. Even during the last recession in the Indian Economy, while other vehicle manufacturers suffered, Tata Trucks continued to enjoy good sales. The Indian Defence Services had accepted the Company's product for its quality and performance and the best proof of the quality of the Tata Trucks was the fact that the company had been able to export increasing numbers of its vehicles to foreign markets, where products from all over the world were obtainable.
- 6(8). Product Price.—The company has pointed out that there was an informal price control on prices of commercial vehicles during January, 1961 to September, 1967. During the period Government allowed increases only under certain specified heads. After the removal of price control in 1967, the Govt. had obtained from the manufacturers of commercial vehicles an undertaking that they would not change prices except on account of the specified factors for a period of 12 months. Thereafter there was no price control at all on commercial vehicles and manufacturers were free to charge their own prices from Sept. 1968. It was claimed by the company that even though it had been obliged to raise its selling price of trucks on account of continued inflation in the cost of raw materials, wages, electricity rates, ancillaries, it had been keeping down the price as much as possible. The company had maintained a uniform rate of dividend on ordinary shares at 14.5% since 1960-61. It was reduced to 13.5% in 1969-70 which was a year of poor results on account of prolonged strike. In this connection, the company has submitted a statement showing the extent of retained earnings during the years 1960-61 to 1970-71. The retained earnings as a percentage of

capital employed works out to 1.7%. A copy of the statement furnished by the company is attached as Appendix II. The company has claimed that its chassis was available at a price of Rs. 50,716 (excluding excise duty) while the chassis of its major competitor costed Rs. 61,694 (excluding excise duty).

- 6(9). Manufacture of 9,000 medium and heavier vehicles at Poona.—The company expects a shift in the demand in favour of a higher tonnage and therefore it proposes to produce 9000 vehicles in the medium and heavier types (10 tonne payload). The manufacture of this vehicle is without any collaboration or import of know-how. Poona has been selected as the location of this project firstly because the scale of operations at Jamshedpur had reached a level where a major expansion would impose a considerable strain on the organisation and infrastructure. Secondly, Poona offered a well-developed base for building a vehicle manufacturing operation. A training organisation and tool making, machine building and repairing facilities were already available at Poona besides a large research and testing facility.
- 6(10). Manufacture of 3,000 off-highway vehicles at Jamshedpur.—According to the company there was an ever-increasing demand for off-highway vehicles from Govt. agencies such as the P.W.D., dam and irrigation projects, mining departments, etc. and Defence. Further, there was a growing export demand from countries of the Middle East and South East Asia. The live front axle of this vehicle and transfer gear box which were till now imported would now be manufactured at Poona. Other components would be manufactured at Jamshedpur and final assembly would also be undertaken at Jamshedpur.
- 6(11). Setting up an alloy iron foundry at Poona.—The company's alloy iron foundry at Jamshedpur was unable to increase its output any further. The only other good iron foundry which could supply specialised items was the Ennore Foundry which was a subsidiary of Messrs. Ashok Leyland. The company was unable to accept any large outside orders. It was, therefore, essential to set up an alloy iron foundry at Poona which would supply high grade castings which were required at Poona and Jamshedpur for the production of additional commercial whicles. Production of thin walled automobile castings was a highly specialised field of engineering requiring rigidly controlled manufacturing techniques and critical selection of raw materials of the correct specifications. Getting automobile castings from an outside factory was not a satisfactory arrangement and usually it resulted in large number of rejections. Therefore, for a large scale operation it was essential to have a captive source of high grade castings. The most critical castings required for the manufacture of vehicles were (i) cylinder block, (2) cylinder heads, (3) transmission housings, (4) clutch housings, and (5) rear axle housings. These were just not available from any indigenous source and Government had to allow the import of large number of these castings every year.
- 6(12). Selling arrangements.—The company had established a net work of authorised dealers for specific areas in the country. It was an essential condition of the delership that the dealers must provide satisfactory after sales service to the customers and should maintain adequate stock of fast moving and slow moving spare parts and to establish service centres/workshops with special tools and equipment as specified by the company. The company assisted the dealers by training at Jamshedpur, their service staff. Further, the services of company's field service personnel were at all times available to all their dealers. Since March, 1970 the company had established its own Regional Sales Officers in the various States from where supplies were made to the dealers within the State concerned.
- 6(13). Outstanding Orders.—According to the company, there was a large unsatisfied demand for Tata Vehicles. The pending orders for its vehicles in August, 1971 was 12,951 Nos. The break up of the outstanding orders was as shown below:—

Order from Public .		•				•		•	•				7,018
Order from Transport	Unde	rtakir	ıg		· •		•					٠.	1,922
Orders from Govt				•	. 4	•		•		•		•	5 22
Orders from Defence		•		•									2,090
Export Demand .	•			•				•			•	•	1,399
													12,951

In addition, the company expected bulk orders for about 3406 from various other authorities. This made a total of 16,357.

7. Ancillary Purchases.—One of the points stressed before the Commission by the applicant company related to the development of ancillary industries. In this connection, the company was asked to indicate the proportion of components (a) bought from other suppliers (i) In India (ii) from outside India and (b) Manufactured by the Company itself in terms of the total cost of the vehicles produced in each year. The company furnished the following figures:—

				Bought from	Outside India	Bought in India	Manufactured by the Com pany itself	
	W-3			CIF %	Import Duty	%	%	
1960-61				16.91	5.92	21.23	49.81	
1961-62	•		•	16.74	6.19	20.54	50.71	
1962-63				14.54	5.67	21.91	51.64	
1963-64				10.52	6.20	25.27	52.08	
1964-65		•		7.67	4.53	29.04	52.90	
1965-66	•			5.07	3.19	29.87	56.04	
1966-67				4.92	2.51	35.29	51.24	
1967-68				2.47	1.26	34.88	55.45	
1968-69			•	1.80	0.92	36.09	54.83	
1969-70				1.26	0.67	34.62	56.82	
1970-71		٠.		1.30	0.76	35.40	57.04	

The figures are self-explanatory. The imported contents are gradually decreasing. Purchases from ancillary producers in India have shown a steady upward trend. The company has stated that under the expansion scheme the percentage of components bought from outside India would be slightly less as compared to 1970-71 and the value of components and semifinished items bought from other suppliers in India per vehicle would be substantially higher. The company feels that as a result of the ancillary base being more fimly established, the percentage of the indigenous bought out components would go up and the company's own manufactured items would be correspondingly reduced. It was stated by the Company that it was its firm policy to develop as many ancillary sources with as even a geographical distribution as possible.

Enquiries were also made from the company to find out about the various types of assistance that it had claimed to have given to the ancillary units for developing their production. The assistance given has been described by the company in the following words:—

- (i) The company extends to the ancillary units technical assistance in regard to design, methods and processes. metallurgical and heat treatment techniques and the quality control procedures to ensure that the production is consistently to the desired quality standards. In some cases, the company's engineers have gone to the length of working with the foreign collaborators or ancillary units to either evolve or adapt designs of the products to suit Indian conditions.
- (ii) The company has created, at substantial investment, up-to-date testing facilities which it is difficult for many of the smaller ancillary units to set-up at their own expense. It is because of these facilities that it has been possible for the company to carry out thorough tests of the samples developed by the ancillary units and to feed them back with the results of the testing together with suggestions for improvement in the quality standards.
- (iii) In many cases, the Company has loaned to the ancillary units special gauges and such other inspection equipment until they are in a position to produce their own equipment.

- (iv) In regard to raw materials with rigid and specialised specifications which are invariably in short supply, the Company has frequently assisted the ancillary units by making such special raw materials available to them from its own stocks.
- (v) The company has helped the ancillary units by giving advances to finance the cost of tooling and purchase of inspection equipment or expensive raw material.

The Commission instituted independent enquiries to check up the above claims. Letters were addressed to 30 ancillary suppliers. Replies received from the suppliers are summarised below:—

Escorts.—Telco's requirements of quality are very exacting, Telco has assisted Escorts by giving them sophisticated heat treatment facilities and with certain tools which would otherwise have to be imported.

Hindustan Malleable Forging Ltd.—Telco's inspection is very rigid and free from corruption and sub-standard materials cannot be passed for use in their trucks. Telco has given the company on loan costly and scarce raw materials without which the entire production of the foundry would have been paralysed.

International Instruments Pvt. Ltd.—The company has received valuable assistance from Telco which made available the use of its laboratory and the quality design equipment. By the expansion of Telco, the company expects some redution in the cost of its own products.

Bharat Forge Co., Poona.—The company has taken advantage of technical assistance of Telco in matters concerning materials, heat treatment cycle, inspection methods etc.

M/s. Rane (Madras) Ltd.—Telco's methods of inspection and quality control have generally helped the ancillary industries to raise and maint in high standards.

Malleable Iron & Steel Castings Co., Pvt. Ltd.—Telco has rendered all technical assistance in all related areas of production.

M/s. Engine Valves Ltd., Madras.—Telco's methods of inspection of quality control have helped the ancillary industries to raise and maintain high standards.

M/s. Motor Industries Co. Ltd., Bangalore.—The company got a lot of feed back from Telco about the performance of its own products in the field and the information was useful to the Company.

M/s. Associated Bearing Co. Ltd., Poona.—Teleo has been insisting on high quality bearings. The company had useful discussions with Teleo's technicians regarding rust prevention techniques.

M/s. India Radiators Ltd., Madras.—Telco has always helped it to improve the quality.

M/s. Gabriel India Ltd., Bombay.—The quality of components fitted in Telco's commercial vehicles is superior to that of components used in European and American commercial chassis. This has been largely due to the persistence of Telco's Research & Dev. Department.

M/s. Wyman Gordan India Ltd.—The quality standards adopted by Telco are exacting and rigid and the company has been benefited by Telco's assistance in raising the quality of its products.

M/s. Sankey Wheels Ltd., Durgapur.—Telco's cooperation has helped in turning out high quality wheels.

- 8(1) Public Hearings.—The public hearings in this case were held at the office of the Commission in Delhi on the 16th and 17th November, 1971. The first session commenced at 11 A.M. on the 16th and continued till 1 P.M. The second session started at 2 P.M. on the 17th and finished at 4 P.M. The applicant company was represented by the following officers:
 - 1. Shri Moolgaokar, Vice-Chairman.
 - 2. Shri J.E. Talualicar, Chief Executive Officer.

- 3. Shri S. Krishnamurthy, Chief Accountant.
- 4. Shri D.S. Narayanan, General Sales Manager.
- 5. Shri R.D. Kulkarni, Secretary.
- The D. G. T. D. was represented by Shri N. T. Gopala Iyengar, Industrial Advisor (Engineering) the Planning Commission Shri P.R. Latey, Chief (Engineering) and the DGS&D by Shri B.R. Julka, Deputy Director (Supplies). Press representatives and representatives of various automobile manufacturers and allied industries were also present. A list of such representatives is given in Appendix 'III'.
- 8(2). At the outset, the Chairman drew the attention of Shri Moolgaokar to certain remarks which Shri J.R.D. Tata had made at the annual general meeting of Tata Chemicals Ltd. regarding the relevance of certain letters which had been addressed by the Commission to various companie of the Tata Group in the course of its enquiries into the application of Telco for expansion. Thes Chairman remarked that it was very unfortunate that a responsible person like Shri J.R.D. Tata should have resorted to this method of criticising the procedure adopted by the Commission. There might be differences of opinion about the relevance of particular questions. The proper procedure for Shri Tata would have been to discuss the matter with the Commission and not to air his views through the Press. The Commission did not want to go to the Press and answer back the uncalled for charges levelled by Shri Tata which could well be interpreted to mean an attempt to pressurise an independent body like the Commission to decide Telco's case in its favour. The Chairman desired Shri Moolgaokar to convey to Shri Tata the Commission's unhappiness at the tactics adopted by Shri Tata.
- 8(3). The Chairman called upon Shri Moolgaokar to explain for the benefit of those assembled at the public hearing the salient features of the company's proposals and how the public interested was served by the proposals. Shri Moolgaokar explained that the company started the production of trucks with the collaboration of Messrs. Daimler-Benz AG of Germany in 1954. The agreement was for a period of 15 years and expired on 31st March, 1969. During this period M/s. Mercedes Benz gave excellent cooperation in setting up first class testing facilities for ensuring that only the best quality of materials and components went into the Mercedes trucks. They also provided facilities for training as many as 275 Telco personnel in Germany. The indigenous content of the trucks was 77.17% in 1960-61. The indigenous content had gone up to 98.5% in 1970-71. The company had also developed a strong Research and Development organisation at Poona and the Company was now able to carry out the manufacturing operations without any help from the foreign collaborators. The Research and Development organisation had recently developed on its own a new engine which gave 15 H.P. extra and 15% saving in fuel consumption. The company had to spend fiftylakhs of Rupees on the new engine and test it for two years before releasing it to the public. This engine would be fitted in the present range of 5 to 7½ tonne trucks and would result in considerable profits to the transport operators through improved performances and greater economies. Now the only help which Telco took from the foreign collaborators was to get drawings and designs, technical information, manufacturing and test data with patents and patent rights in a higher horse power direct injection O.M. 352 engine which would be fitted in the proposed 10 tonne trucks to be manufactured in Poona. This new agreement was for a period of five years from 1st April, 1969.
- 8(4). Telco had achieved among all the automobile units in the country the most efficient and economic utilisation of the human, financial and technical resources placed at its disposal. It had provided an enormous potential for the tax revenues of the country, since the road transport industry was the biggest single generator of tax revenues within the country and Telco provided the single biggest springboard for the generation of these revenues for the benefit of the country. Likewise, Telco could claim to be the biggest single generator of employment opportunities in a multiplier manner, not only in the broad sense of the whole gamut of employment effects created but in the specific sense of nursing a chain of new entreprenures in the small and medium sectors of industry, in which Telco itself had no financial or any other interest or centre.
- 8(5). Further, it was in the very nature of the commercial vehicle industry that it contributed to balanced regional development, and enabled the opening up of a vast number of erstwhile backward areas. The increasing purchase of the commercial vehicles in the rural areas was an eloquent proof of the role that Telco, as the foremost leader of the commercial vehicle industry in India could and did play in achieving the cherished goal of raising the living standards in the rural areas, and, thereby in this positive manner, narrowing the disparities not only between the rural

and the urban areas but also between the "progressive" and the "backward" areas within the rural sector itself. Not least, as the technological leader of the engineering industries and as the foremost exporter of engineering products in India, Telco, if permitted to expand, would continue to serve the country to the common good of its economy and to the betterment of its living standards.

- 8(6). Telco had been able to export far more than any of the other producers of commercial vehicles in the country. Due to the high quality of its trucks, Telco had been able to secure such large orders in the competitive international market. Telco trucks had by far the highest resale value. That also gave an indication of the sturdiness and performance of Telco trucks. Moreover, Telco was the largest supplier to the Army.
- 8(7). Telco also gave considerable help to the producers of ancillaries. In fact the ancillary industries can be said to have grown on the back of Telco. The assistance given to the ancillaries was then described by Sh. Moolgaokar. The details have already been given on pages 26-27 of the report.
- 8(8). Dr. Paranjape desired to know the details of the efforts made to develop ancillary industries in the Bihar State particularly near about Jamshedpur. Shri Moolgaokar replied that the company had made all out effort to develop some ancillaries in the nearby industrial estate at Adityapur. As the necessary facilities had not yet been provided by the Government of Bihar, it was very difficult to get any ancillaries made in Bihar. Telco had to depend on supplies from Maharashtra, Tamil Nadu and Mysore.
- 8(9). Dr. Paranjape pointed out that still the percentage of components manufactured by the company was as high as 57.40 in 1970-71 and suggested that the company should try to offload more items to the manufacturers of ancillaries. Shri Moolgaokar replied that the company would continue its efforts to off-load more parts but the company's experience was that truck operators heavily overloaded the trucks and therefore it was very necessary to insist on a high quality on the part of the producers of ancillaries.
- 8(10). Shri D. Subramanian pointed out that the DGTD had already given some thought to the list of items which could be further offloaded and suggested that the company should not augment any capacity in its present plant or instal new capacity in the new plant for the manufacture of any of the following items:—

सन्धर्मव जयते

- 1. Connecting Rod Bushing
- 2. Fuel Tank Cap
- 3. Exhaust Pipe
- 4. Oil Filter
- 5. Spring U Bolts
- 6. Wire Harness
- 7. Spring Shackle Pins
- 8. Radiator Cap
- 9. Exhaust Muffler
- 10. Tail Pipe
- 11. Leaf Springs
- 12. Spring Centre Bolts
- 13. Spring Seat
- 14. Hydraulic Jacks

The company should confine the production of these items to meet its requirements for the present licensed capacity for original equipment and the actual production in 1970 for the replacement market. The company should gradually off-load those items to the manufacturers of ancillaries

- 8(11) The company has since furnished the following reply:
- "It has always been our endeavour to develop additional sources of supplies of components for our vehicles. Subject to ancillary sources being available to cater to our requirements of the above items to the quality standards and specifications laid down by us and subject to their being in a position to maintain consistency in quality and timely deliveries in respect of bulk supplies as well, and the prices being reasonable, we shall be happy as always to obtain such items from ancillary sources to meet our requirements of the expansion programme.
- 8(12) As regards the suggestion that we should gradually transfer these items to suitable ancillary industries even to meet our requirements for the current manufacturing programme, while it will not be possible for us to straightway accept this as a condition, we shall be prepared to gradually transfer to the ancillary industry, subject to availability of satisfactory sources of supply from the point of view of consistency in quality, regularity of supplies and reasonable prices such of those items the transfer of which will not disrupt our present operations.
- 8(13) The time has come for government in turn to ensure that ancillary industries manufacture our requirements to the quality standards laid down by us. For instance, even after fifteen years of operation, we are still not in a position to obtain good quality Fan Belts, Oil Seals, Bearings and many other items. Government has yet to introduce any procedure to ensure quality standards from such ancillary industries".
- 8(14) Shri Subramanian pointed out that the company's production of commercial vehicles in 1970 was 24,463 out of a total of 35,829 and thus the company's market share was as high as 68%. There was no doubt about the need for increasing the supply of commercial vehicles in view of the large gap between the plan target of 85,000 vehicles for 1973-74 and the actual production of 35,829 in 1970, but before giving a licence for expansion to Telco which virtually held a monopoly in trucks, the Commission would like to be assured that adequate benefits would accrue to the public from the expansion scheme of Telco. The company should indicate in what manner it would be prepared to pass on the benefit achieved by economies of scale to the consumer. The company should also indicate what benefit would accrue to the public by way of increased exports. He suggested that the company should undertake to export vehicles and spare parts thereof to the extend of 20% of the additional capacity over and above their present level of exports so that the value of total exports should reach the minimum of Rs. 20 crores when the expansion scheme was fully reached.
- 8(15) He also pointed out that another manufacturer of commercial vehicles, viz. Ashok Leyland, gave better terms of warranty. Tata vehicles carried a warranty as shown below:—
- (i) the expiration of the period during which the vehicle shall have travelled a total distance of 10,000 kms.
- (ii) the expiration of a period of six months from the date of first registration of the vehicles under the Indian Motor Vehicles Act.
- (iii) the expiration of a period of 12 months from the date of despatch of the chassis from the Works,

Whichever period expired first.

The Warranty offered by Ashok Leyland was valid for the following period:-

- (i) a period during which the vehicle shall have travelled a total distance of 20,000 miles; or
- (ii) a period of 6 months from the date of first registration of the vehicle under the Indian Motor Vehicles Act.

Whichever period expired first.

There was no reason why Telco which claimed an excellent quality control should not give a Warranty for the same period as Ashok Leyland. The representatives of the company agreed to consider the matter. They have since intimated by their letter dated 18-11-71 that in deference to the wishes of the Commission, the company has decided to enlarge the scope of the warranty as shown below with immediate effect:—

- (i) a period during which the vehicle shall have travelled a total distance of 32,000 kms. (20,000 miles); or
- (ii) a period of 6 months from the date of the first-registration of the vehicle under the Indian Motor Vehicles Act; or
 - (iii) a period of 12 months from the date of despatch of the chassis from the factory;

Whichever period expired first.

The Commission appreciate the promptness with which the Company has accepted its suggestion.

8(16) As regards the suggestion that the company should export 20% of the additional production, it was pointed out by Shri Subramanian that this was a specific condition suggested by the Deptt. of Industries and it must be fulfilled if the company wanted its expansion scheme to be approved. As the company had already achieved an export of 11 crores in 1970, it should not be difficult to reach the target of 20 crores at the end of the expansion scheme i.e. 1977-78. The company's representatives replied that even though there was no stipulation about export in the past, the company had of its own accord exerted in this direction and increased the exports from year to year as shown below:—

1961-62					•				3.69	lakhs
1962-63	•	•		.0	WEED!			•	3.06	,,
1963-64		•		636			33		22.93	,,
1964-65				7			100		18.76	,,
1965-66	•			6		174	1		43.64	,,
1966-67				. 1	dir.	77.4		•	112.42	,,
1967-68	•				120 Y.	84 X			128.52	,,
1968- 69				Ø.			1		314.37	,,
1969-70	•		•	- (5)	1766		3-	•	700.92	,,
1970-71				100	11300	200		•	1062.24	,,

The company had admitted that in its letter dated 8-12-1970 to the Deptt. of Industrial Development and Internal Trade that it could achieve a level of exports of about Rs. 20 crores per annum at the end of the expansion scheme. However, the company contended that exports were governed by various factors such as the following over which the company had no control:—

- (a) Internal political, economic and monetary conditions and price levels.
- (b) India's relation with such countries where Indian made vehicles are presently in demand.
- (c) Availability of the requisite Govt.'s subsidies and other incentives.
- (d) Freight rates.

For these reasons, it would not be possible to give an undertaking that annual exports would be maintained at a level of 20 crores at all times.

8(16) (i) Shri Subramanian pointed out that the export condition was an indispensible condition. A condition that 20% of the additional production should be exported was put in the letter of intent issued to M/s. Ashok Leyland. It was subsequently pointed out that the percentage laid down in the case of Ashok Leyland was 15 and the past exports of Ashok Leyland were on the low side. Telco's representatives contended that it was not fair to impose a condition of 20% of the additional production in its case. Telco's sales in 1970-71 amounted to Rs. 136.24 crores. The projection given by the company for the expansion scheme showed that the sales in 1977-78 would be Rs. 270.76 crores i.e. nearly double the figures of 1970-71. Therefore, there should be no difficulty in the company's accepting the condition that its exports in 1977-78 should reach the figure of Rs. 20 crores. Even 10% of the production in 1977-78 would come to Rs. 27 crores. Therefore, the Commission would suggest that the condition regarding export should be that a minimum

of 10% of the production should be exported in each year. If there were extraordinary conditions like the ones mentioned by the company, the government would no doubt be willing to make some relaxation. But in view of the commanding position of Telco, in the field of trucks and the substantial additional capacity asked for, it was essential to put in this condition about exports.

9. Scheme of Finance.—(1) In the original scheme of finance the requirements of the company over the period 70-71 to 76-77 were shown at Rs. 113.11 crores made up as shown below:—

(a) Capital expenditure						Rs. 35.70 crores
(b) Capital expenditure on Current renewal, replacement and in	nt Pro moder	jects c nisatio	on ha	nd, an pl a nt	d ·	Rs. 31.41 crores
(c) Repayment of long term loans						Rs. 17.00 crores
(d) Additional working capital	•		•	•		Rs. 29.00 crores
•						Rs. 113.11 crores

(vide company's letter dated the 30th April, 1971 to the Dept. of Company Affairs.)

- 9(2) The Commission noticed from newspaper reports on 26th July '71 that while reviewing the working of the company for the year 70-71 Shri J.R.D. Tata, Chairman of the Company, had stated that the company's hopes to finance expansion programme from internal sources was not likely to materialise as internale generation of funds would appreciably be reduced and it might be necessary to spread the programme over a longer period. The Commission accordingly asked the company by its letter dated the 28th July '71 to furnish details of the revised programme of the company regarding expansion and financial resources. In the revised programme received from the company it was stated that the production of 3000 additional commercial vehicles at Jamshedpur would be achieved in 73-74 as originally proposed. However, the production programme in Poona for heavier vehicles at Poona had been postponed by one year with the result that 2000 vehicles would be produced in 76-77 and full production of 9000 vehicles would be achieved in '77-78. total capital expenditure was shown at Rs. 83.98 crores as against Rs. 67.11 crores in the original The increase of Rs. 16.87 crores was stated to be mainly on account of increases in prices of machine tools, building materials etc., both in Indian and abroad and the effect of revaluation of the Deutsche Mark and other currency fluctuations. The estimate for working capital was also raised from Rs. 29 crores to Rs. 49.8 crores in the revised programme. This increase was also stated to the due to all round increase in costs and expenses. The foreign exchange loans were originally shown at Rs. 15.45 crores. This has now been increased to Rs. 17.90 crores. A copy of the revised scheme of finance showing phasing of capital expenditure, estimated turnover, generation of cash and utilisation of cash during year 71-72 to 77-78 is attached at Annexure 'IV'. The revised scheme showed that the maximum gap between resources and expenditure would be Rs. 23.33 crores in the year 77-78. This was the gap on the closing date of the financial year. However, the requirements for working capital may be slightly higher about September-October. The company hoped to obtain the necessary funds from the banks under the usual terms for the advance of working funds, i.e. by hypothecation of stock etc.
- 9(3) The revised scheme of finance was communicated to the Department of Banking, the Department of Company Affairs, Department of Industries and Department of Economic Affairs on the 5th November, 1971 and the Departments were requested to send their comments on the revised scheme. The Departments of Banking, Industries and Company Affairs had no comments to offer on the revised scheme of finance. The Department of Economic Affairs stated in their letter dated 12-11-1971 that as the cash generation of the company for the years 1968-69, 1969-70 and 1970-71 was Rs. 804 lakhs, 715 lakhs and 917 lakhs respectively, the average cash generation in a year should be taken at 8.12 crores. At this rate the cash generation in the seven years period 1971-72 to 1977-78 would be only 56.84 crores as against the figure of 93.73 crores assumed by the company in its revised scheme of finance. It was pointed out to the Department of Economic Affairs that there was a fallacy in assuming that the company's future earnings in the year 1971-72 to 1977-78 would be at the average rate of 8.12 crores because this assumption did not take into consideration the projected increase in sales from 161.82 crores in 1971-72 to 270.76 crores in 1977-78. It was also pointed out that the net generation of funds in the years 1968-69 to 1970-71 as a percentage of sales was 7.1%. If this was applied to the total sales of 1454.47 crores envisaged in the seven years period of 1971-72 to 1977-78, the cash generation should be about 103.27 crores. As against this the Company had assumed only a cash generation of 93.73 crores. The Department of Economic Affairs finally replied by their letter dated 17-11-71 that if the company's forecast of the sales

for the year 1971-72 to 1977-78 could be relied upon, their estimate of cash generation could also be accepted.

- 9(4) Dr. Paranjape drew the attention of Shri Moolgaokar to the extension of the scheme by one year and he wanted to know whether this extension was prompted by the consideration that the company should not go in for long term loans from public financial institutions. The Company's representative replied that the Company's original scheme of finance was worked out on the basis of figures which obtained in October '70. As considerable delay had taken place in the clearance of the scheme by Government, there would be further delay in the arrival of machinery. The company's programme was a composite programme for replacement of certain existing machinery as well as installation of machinery for the new production along with the erection of a new foundry. The whole position was reviewed from the technological view point and it was found that the programme could be completed only in the year 1977-78. The resources available went down on account of the following reasons.
- (i) Government's announcement that the Development Rebate on Plant and Machinery would be available only upto May, 1974;
- (ii) The Priority status granted to the automobile industry in the Income Tax Act had been withdrawn in the Finance Act, 1971, as a result of which the income-tax payable would go up from 50.6% to 55% for the financial year 1971-72.
- 9(5) The Chairman asked the specific question whether the company did not consider it necessary to issue increased capital in order to find more funds for the expansion scheme, shri Moolgaokar replied that the company did not consider it necessary to issue any fresh capital except to the shareholders of the Central Bank of India as envisaged in the scheme of amalgamation approved by the Bombay High Court. Further to the question whether the company would not like to take loans from public financial institutions with the newly introduced option clause for conversion to equity, Shri Moolgaokar stated that the company did not at present see the need for any such loan. If however, during the course of the expansion scheme the company was forced by changes in circumstances to obtain large funds, the company might consider the question of going in for loans from public institutions.
- 9(6) Shri Subramanian pointed out to the company's representatives that one of the important factors which had to be kept in mind by the Commission in considering the company's proposal for expansion was whether the company was prepared to pass on the benefits of economies of scale to the consumers. This question had been specifically put to the company in the Commission's letter dated the 28th July '71 and the company had replied briefly to the following effect:
- (a) In the present inflationary economy it was difficult to foresee what the levels of price of basic materials would be in future years.
- (b) The prices of bought-out materials and components together with the depreciation constitute a fixed charge of not less than 75% of the total cost, and therefore, the scope for economies of scale was limited.
- (c) In a technologically intensive industry like the production of commercial vehicles, years of research effort and training skills had to be spent, in order that the capital equipment can be economically and efficient utilised. Therefore, much of the profits have to be ploughed back in research and development in order to keep abreast with the latest technological development in the industry. Out of the expansion of 12,000 units only 3,000 units were of the same type as were manufactured at present at Jamshedpur. The balance of 9,000 units represented a new heavy truck, which was yet to be developed and marketed. There would be no economy of scale in these 9,000 trucks.
- 9(7) In view of the above considerations the company was not in a position to give any undertaking with regard to the economies of scale. All that the company would promise was that its new heavy truck would definitely be a better product with a lower capital cost per tonne mile. Further, the new engine which had been put in the market on the existing types of trucks would lead to an economy of Rs. 5 crores a year in oil consumption.
- 9(8) While recognising the importance of the factors mentioned by the company, both Dr. Paranjape and Shri Subramanian expressed the strong opinion that the company should not put up its prices merely with a view to generate more internal funds for financing the expansion scheme. 36—8 M of LJ&CA/ND/79

In other words, the present customers should not be made to pay for the cost of the expansion scheme. Shri Subramanian pointed that while there was no price control on commercial vehicles, it was necessary in the view of the Commission to safeguard the interests of the consumer by putting a ceiling on the profits of the company in the expansion scheme. An analysis of the accounts of the company for the year 1966-67 to 1970-71 showed that the gross profits before depreciation and development rebate and taxation i.e., the gross internal funds generated in each year as a percentage of the net sales (after exclusion of exise duty) were as shown below:

1966-67						•		•			•	13.6
1967-68								•	•	•		11.1
1968-69											•	12.5
1969-70	•	•	•	•			•					10.41
1970-71					_							11.28

A copy of the working is given in Annexure IV A' Shri Subramanian suggested that the pricing of the company's products should be arranged in such a way that during the period of expansion and one year thereafter the percentge of the gross profits before tax, depreciation and development rebate with preference to the net sales did not exceed the average realisation in the last 3 years. The average realisation during the last 3 years comes to 11.4%. The Company's representatives vehemently protested that they could not agree to such a condition for the reasons already given in the The Commission informed the com-Company's reply to the Commission's letter dated 28-7-71. pany's representatives that even though there was no price control on commercial vehicles, it was absolutely necessary to ensure that the applicant company did not use its monopoly position for pushing up the prices of commercial vehicles with the intention of generating more and more internal funds for financing the expansion without going in for any loans from public financial institu-There was also the danger of the company increasing its margin for the purpose of giving higher benefits to the shareholders by way of increased dividends. The company's representatives pointed out that it has followed a conservative dividend policy and declared only a dividend of 14.5% throughout from 1960-61 and in fact, in one year, 1969-70, the dividend was actually reduced to 13.5%. The company was ploughing back the maximum profits for the purpose of improving the quality of its products. Moreover, the company had now completed 20 years of its existence and many of the older machines required replacement. Therefore, funds were required for maintaining the health of the existing plant also and the entire benefit of any economy of scale could not be passed on to the consumer. However, they agreed to think over the suggestion and furnish a detailed reply. In this connection, they pointed out that there was a prolonged strike in the year 1969-70 and it was an year of exceptionally low profits. The Commission agreed to go by the average profit of the two year 1968-69 and 1970-71. The Commission has since received from the company a letter dated 24th/25th November, 1971 agreeing to the pricing of the products in such a way that the gross profit after the interest but before allowing depreciation and development rebate and tax did not exceed the average of the two years 1968-69 and 1970-71 i.e. 11.85%. This letter is reproduced at Appendix V. The Company has pointed out that it would be extremely difficult to change the prices frequently in order to stick to this figure of gross profit. The company should have the flexibility to adjust the excess or shortfall of any year during the next three years, subject to the overall limitation that the average gross profit during the period of expansion and one year thereafter does not exceed 11.85%. The Commission feels that this request is reasonable. Subject to this reservation, it is essential to protect the interest of the consumer by placing such a ceiling on the profits of the company during the expansion period and one year thereafter.

9(9) By its letter dated the 21st Sep. '71 the Commission had informed the company that most of the users of Tata vehicles had complained that the spare parts were not available and that they experienced considerable difficulty in obtaining them at the listed prices. The Commission wanted to know the Company's proposals to ease the situation. In its reply the company admitted that it did not have enough capacity for the manufacture of certain critical spare parts like cylinder heads and crank shafts and it had been pressing the Government for issuance of a licence for machine tools and equipment for stepping up its capacity for the manufacture of these parts. The application for the licence was submitted on 13th December, 68 but the licence was issued only on the 3rd August, 1970. In the interim period the Tata Vehicle population which stood at 160000 in December '68 rose to 203000, thereby increasing the pressure of demand for spare parts. The company hoped to instal new machinery by March '72 and thereafter there would be substantial improvement in the availability of spare parts in the market. The Company also added that all its dealers had standing instructions to display the printed spare parts price list at the counter so that any customer could verify the correctness of the price charged to him. Shri Subramanian pointed out that the

complaint from the public was a legitimate one and the company should adopt more energetic steps for increasing the quantity of spare parts to the maximum extent possible in 1972-73. The company has promised to try its best to ease the situation in regard to spare parts.

- 9(10) One of the conditions proposed by the D.G.T.D. was that for the new range of vehicles of more than 10 tonne capacity the initial pack value of imported components should be Rs. 750 and the company should be asked that the indigenisation of these items should be taken up and the maximum value of imported equipment should be brought down to Rs. 500 within three years. This condition was placed before the representative of the company. The company has stated that it would not be possible to accept this condition. The sum of Rs. 750 was required to cover import of bearings, oil seals and a few other high tensile fasteners which were not available in the country. Even the estimated requirement of Rs. 750 per vehicle was dependent on government's sanctioning in time the proposals of various ancillary units to extend their capacity to meet Telco's additional requirement to the quality standards laid down by the company. The explanation given by the company is quite reasonable and the commission does not consider it necessary to press the company to reduce the value of the indigenous components below Rs. 750 per vehicle.
- 9(11) As regards the phasing of the programme of expansion the company had stated in its revised scheme of finance that additional production of 3000 off highway vehicles at Jamshedpur would be achieved by 1973-74 and that the additional production of 9000 heavy vehicles at Poona would be achieved by 1977-78. In view of the replies given by Shri Moolgaokar with regard to the Company's unwillingness to resort to long term borrowings from public institutions, the Commission had an apprehension that if sufficient internal funds were not generated, the company might be tempted to escalate the programme of expansion and postpone it beyond 1977-78. The Commission pointed out to Shri Moolgaokar that one of the reasons which weighed with the Commission in looking at the Company's proposals in a favourable manner was the imperative necessity for increasing the number of commercial vehicles in order to fulfil the targets laid down by the Planning Commission. Therefore, the Commission would like to have an assurance from the company that there would be no further postponement of the expansion scheme beyond the year 1977-78. The company has since given a written assurance that additional production of 12000 vehicles in all would be achieved as early as possible and in any case not later than 31st March, 1978, provided the requisite licences for import of machine tools and equipment are issued to the company by the end of June, 1972. The Commission hopes that if the Government finally decides to grant the application of the company, the Government would take steps to expedite the requisite licences as requested by the company.
- 10. Objections of other Manufacturers of Commercial Vehicles.—(1) As already stated in paragraph 2 of the report the details of the company's proposals for expansion were specifically communicated to the other producers of commercial vehicles, viz. M/s. Hindustan Motors, M/s. Premier Automobiles & M/s. Ashok Leyland. Notices of public hearing on the 16th, 17th and 18th November, 1971 were sent to these companies. The notice was also sent to M/s. Insov Auto Ltd. of Calcutta to whom a letter of intent had been issued by Government for the manufacture of 12,000 commercial vehicles.
- 10(2) M/s. Hindustan Motor merely acknowledged receipt of the notice of hearing and did not take any part in the public hearing. M/s. Premier Automobiles stated in their letter dated the 26th October, 71 that they had no desire to attend and participate in the hearing nor did they wish to submit any note. M/s. Ashok Leyland Ltd. intimated to the Commission by their letter dated the 19th October, 71 that the company did not intend to participate in the hearings. As already stated, these three companies are the important producers of commercial vehicles apart from M/s. Standard Motor Co., which is producing only a small number of trucks of 1 tonne capacity. If these companies had any positive objections to the proposals for expansion of Telco, these companies would have sent their specific suggestions or objections in writing to the Commission and they would also have participated in the hearings. The reasons for their not doing so must be best known to the companies themselves. However, since certain specific points had been raised in their earlier letters, the Commission has examined the gist of these communications from the aforesaid companies.
- 10(3) Premier Automobiles Ltd.—The following remarks had been made in the company's letter dated the 14th July, 1971:

"In so far as the type of vehicles already being manufactured in the country, the total installed capac ty in the industry is quite adequate to meet the present demand, i.e. supplies balancing

demand. However, still in certain units there is some amount of idle capacity. Therefore, before licensing additional capacity for the types of vehicles already being produced in the country, the existing units should be allowed to operate upto their installed capacity."

10(4) The figures of production of sanctioned capacity, installed capacity and actual production of commercial vehicles by M/s. Premier Automobiles have already been given in paragraph 2(1). Their sanctioned capacity was originally 15,000 but it was later on reduced to 7,500. The production has been steadily going down from the figure of 6,726 in 1965-66 to 3,957 in 1969-70. M/s. Premier Automobiles have not cared to appear before the Commission and explain what exactly was required to be done in the opinion of the company for improving its production. The idle capacity of Premier Automobiles attracted the attention of the Commission even at the outset of the enquiry and one of the Members, Dr. Paranjape, visited the factory of Premier Automobiles on 3rd August, 1971 and he was shown round by Shri S.T. Raja, the company's new Managing Director. Dr. Paranjape noted that the company was organised originally about 20 years back and since then there had been much unsystematic growth of workshops, testing laboratories etc. Even though there was a large number of skilled and experienced workers, the arrangements for handling of materials, assembly lines etc., were far from ideal, and very little work had been attempted by way of research either in technology or design. While there was a system of testing of raw materials and bought out items, there was also a tendency to buy certain items from non-standard producers. The Commission feels that whatever may be the reasons for this company not achieving its installed capacity of 7,500 vehicles, it is a matter for national concern that there should be so much idle capacity in this company. However, the steps to be taken for compelling or enabling Premier Automobiles to achieve the rated production are not within the scope of the reference made to the Commission under Sec. 21(3) (b) of the MRTP Act in respect of Telco's proposals for expansion. The Commission, however, hopes that this matter would receive the urgent attention of the Ministry of Industrial Development as the current production of commercial vehicles in the whole country is only about 36,000 and even if the extra production of 3,000 by Telco by 1973-74 is added, the total production would be only 39,000 as against the target of 85,000 fixed by the Planning Commission.

10(5). M/s. Hindustan Motors Ltd. have also a dismal record in the production of commercial vehicles. Against the licensed capacity of 15,000 vehicles and installed capacity of 10,500 vehicles in 1965-66 the company produced only 4,000 vehicles in that year. The production has been going down from year to year, reaching a figure of 1525 in the year 1969-70. The company has not cared to appear before the Commission and explain why its performance in the production of Commercial vehicles has been so poor. However, the company has in its letter dated the 29th July '71 raised a doubt whether there would be justification for Telco's proposal to manufacture 3,000 off-highway vehicles at Jamshedpur by the year 1973-74. Hindustan Motors have confused the off-highway vehicles with dumpers and stated that it had a licence to produce 240 trucks per year and besides Bharat Earthmovers also had some capacity for the same type of vehicles. In the opinion of M/s. Hindustan Motors there would be no demand for the 3,000 off-highway vehicles proposed by Telco. This point was specifically put to Telco by the Commission in the Commission's letter dated the 19th July '71 and Telco has estimated the current annual demand for the 4×4 off-highway vehicles at 4,500 units as shown below:

For Army	•		•	•	•	•		•	2,000	vehicles per year
For Border Roads	Orga	nisati	on	•				•	100	do.
For Projects	-					•			300	do.
For Exports	•								600	do.
Civilian requireme	• anto fo		ı.				OT	era-		
tions	EIIIS IC	. 102	·u				,		1,500	do.
CLOILS	•	·	-							
									4,500	
										

Telco has pointed out that for the manufacture of these vehicles the company has to import at present front drive components and transfer gear case components for which foreign exchange was released by Government at Rs. 7,571 per vehicle. After the implementation of the expansion programme this foreign exchange expenditure would be progressively eliminated. Further, M/s. Daimler Benz who had been supplying these components to Telco were finding it difficult to make them available. Therefore it was in the national interest to set up capacity for indigenous manufacture of the 4×4 vehicles. The Commission is satisfied from Telco's reply that there will be adequate demand or absorbing the proposed manufacture of 3,000 vehicles at Jamshedpur.

- 10(6) Regarding the proposal of Telco to manufacture 9,000 heavy vehicles M/s. Ashok Leyland have stated that the demand for such vehicles of more than 10 tonne was not going to exceed 2,000 vehicles per year by the end of the 4th Plan. M/s. Ashok Leyland were the only manufacturers of the heavier type of vehicles and their capacity was 1,000 vehicles per year. Therefore, Ashok Leyland have suggested that Telco should be permitted to expand only up to 1,000 heavy vehicles.
- 10(7) The Commission has carefully considered the objection raised by Ashok Leyland. Telco have explained in their letter dated the 8th December, '70 that a study of the pattern of demand in the past clearly indicated that by 1975 a large portion of demand in the country would be for heavy vehicles with about 10 tonne capacity. Between 1945 and 1955 almost the entire demand in India was concentrated on 3 tonne payload vehicles. Between 1955 and 1965 the demand shifted to 5 tonne vehicles and since 1965 the demand has been confined mainly to 7½ tonne payload vehicles. It can confidently be expected that after 1975 the demand for 10 tonne vehicles would increase fairly substantially. The target for medium and heavy vehicles for the year 1973-74 has been placed by the Planning Commission at 75,000. The annual production in 1970-71 was still less than 50% of the target and therefore there was a considerable gap in the medium and heavy class of vehicles. The Commission has observed the Telco's proposals for the manufacture of 9000 heavy vehicles actually spills over to the 5th Plan period—2000 vehicles would be manufactured in 1976-77 and 9000 would be reached in 1977-78. The Commission is convinced that with the development of coal mines and iron ore mines, the demand for 10 tonne vehicles would go up steadily. Further, Telco has made it clear in its reply to the Commission's letter dated the 19th July '71 that its programme would be flexible and if there was not an adequate demand for heavy vehicles, the capacity would be diverted to medium trucks for which there was a considerable demand. Therefore, we do not consider it necessary to take the objection of Ashok Leyland very seriously. It may be mentioned here that M/s. Ashok Leyland is a subsidiary of a foreign company and at present it holds the monopoly in the manufacture of trucks of more than 10 tonne capacity. Therefore, it would be in the public interest to have a good competitor like Telco.

Before we conclude we must deal with certain difference of opinion which have arisen between us and our colleague, Dr. Paranjape. As already stated the reference from Govt. was received by the Commission on 16th June, 1971. The Commission issued letters calling for further information on additional points from the Ministry of Industrial Development & Internal Trade, the Planning Commission the applicant company, Ministry of Defence, the DGTD, etc. The letters were issued mostly on 30th June, 1971 and some were issued in the beginning of July. Dr. Paranjape drew up a preliminary note setting out the scope of the enquiry which he had in mind. His note dated 21-7-71 was considered at the Commission's meeting held on 23rd July, 1971. The following were the special points raised in Dr. Paranjape's note:—

- (a) Whether there was need for establishing inter-connection between Telco and some of the more important Tata companies, specially Tisco.
- (b) Whether in recommending the expansion, the Commission should suggest conditions for a change in the ownership and capital structure of the company.
- (c) Whether the Commission should insist that the shareholding of Tisco in the equity of the applicant company should be reduced over a period of time.
- In Dr. Paranjape's opinion such condition could be laid down only if the Commission were also to establish inter-connection with other Tata Companies, which the applicant company stoutly denied. Dr. Paranjape was of the view that inter-connection could be established only u/s. 2(g) (iii) (d) and 2(g) (vi). For this purpose he suggested that detailed enquiries should be made from all the companies of the group regarding the Board of Management and functions that were performed by different individuals in respect of this company and other companies in the so-called Tata Group. The question of the common facilities used by Tisco, Telco and many of the Tata companies would have to be examined. We felt that an investigation into the question of inter-connection with other companies was called for only if some companies of the Tata Group other than the applicant company also, manufactured commercial vehicles and the market share of the group as a whole had to be determined. However, it was clear in the present case that-only Telco out of the Tata Group of Companies, was producing commercial vehicles and its share in the total production in the country was already known to be 61% in the year 1969-70. Therefore, we felt that there was no need for going into the question of inter-connection and the application could be dealt with by applying the criteria laid down in Section 28 of the MRTP Act. However, Dr. Paranjape explained that the question of inter-connection would be vital in many cases which came before the

Commission and it was necessary to build up some expertise in the establishment of interconnections. Some attempt had been made to establish interconnection in the case of Cellulose Products of India Ltd. and Messrs. Sardesai Bros. Ltd., but the reference itself had to be shelved as the applicant company i.e. Messrs. Cellulose Products of India Ltd. had raised the plea before the Government that it was no longer a dominant producer in view of the classification of goods issued by the Government with its Notification dated 26-6-1971. We reluctantly agreed to the question of interconnection being gone into the present case, subject to the reservation that the enquiry should be completed as far as possible within the statutory period of 90 days. In any case, investigation into the question of interconnection should not lead to the procreatination of the proceedings beyond a reasonable time as the gap between the target fixed by the Government for production of commercial vehicles and the actual production of such vehicles was very wide and it was in the national interest to encourage further production of commercial vehicles urgently. Accordingly, a detailed letter was addressed to Tisco on 28th July, 1971 asking for various details regarding the capital structure of the company and the common facilities which the company was enjoying with other companies of the Tata group. Similar information was sought for from 55 other companies. A list of companies to which letters were addressed is given in Appendix VI. Further information was also asked for from Telco with regard to the functions of the Directors and common services shared by Telco with other companies of the group. As the Commission had asked for the preparation of a huge quantity of materials from almost all the companies of the Tata Group, there was a natural feeling in the minds of Shri J.R.D. Tata and his colleagues that a considerable amount of time and energy would have to be spent on information that might not ultimately be of any relevance to the decision of the reference in the case of Telco. Further, legal advisers of the various companies seem to have expressed a doubt whether the Commission was really empowered to ask for information about the organisation and capital structure of other companies which were under the management of Tata Sons & Ltd. in the past during the course of its enquiry in the case of Telco. According to them, once the managing agency was abolished, all the companies of the erstwhile Tata group became independent and Section 12 of the MRTP Act did not empower the Commission to call upon all the 56 companies of the erstwhile Tata Group to furnish the sort of information asked for by the Commission. Accordingly Shri J.R.D. Tata and the Vice-Chairman, Shri Moolgaokar, saw the commission during the Commission's camp in Bombay on the 26th August, 71. They were accompanied by their advocate Shri Palkhivala; Shri Tata and his colleagues contended that Telco was already a larger undertaking by itself and it was not really important whether it was connected with other Tata concerns or not. The Chairman explained to Shri Tata that the Commission was considering whether it was processary to impose any conditions which the Lieune for the considering whether it was processary to impose any conditions which the Lieune for the considering whether it was processary to impose any conditions which the Lieune for the considering whether it was processary to impose any conditions which the Lieune for the considering whether it was processary to impose any conditions which the Lieune for the considering whether it was processary to impose any conditions which the Lieune for the considering whether it was considering whether it was not considered to the considering whether it was processary to impose any conditions which the Lieune for the considering whether it was the considering whether it was not considered to the considering whether it was the considering whether the considering whether the constant the constant that the constant the constant that the constant that the constant th considering whether it was necessary to impose any conditions subject to which the Licence for expansion should be recommended and from that point of view it was felt necessary to go into the question of inter-connection. The Chairman assured Shri Tata that in any case, the Commission was not interested in prolonging the proceedings unnecessarily and it would help the Commission in giving an early report on the reference if the companies of the Tata group cooperated in furnishing the information asked for by the Commission.

The Commission authorised Shri R.D. Saxena, Director of Investigation to go to Bombay and examine the Minutes Book of various companies. Shri R.D. Saxena submitted a note (Annex. VI A) dated 30-10-71. This note was considered at the Commission's meeting held on 1st November, 1971. Shri Saxena's note dealt with the Minutes of the Board of Directors of the following companies:—

- 1. Tata Iron and Steel Company Ltd.
- 2. Tata Exports Ltd.
- 3. Tata Chemicals Ltd.
- 4. The Indian Hotels Co., Ltd.
- 5. Tata Industries Private Ltd.
- 6. The Swadeshi Mills Ltd.
- 7. Tata Engineering and Locomotive Co. Ltd.
- 8. Tata Services Ltd.
- 9. Investment Corporation of India Ltd.
- 10. Ahmedabad Advance Mills Ltd.
- 11. Tata Oil Mills Ltd.
- 12. Sassoon J. David & Co. Ltd.

The only inference that could be made from this note were:-

- (a) There was a joint Committee of Management and staff for Tata Companies at which questions of the scales of pay to be adopted, Dearness Allowance and over-time pay to be granted were discussed from time to time.
- (b) A common decision was taken by various companies to participate in the Tata Industrial Exhibition held in Delhi in the months of Feb.-April, 1971.
- (c) A common decision was taken that the Tata Companies would make agreed contribution for Gujarat Flood Relief Fund, Bangla Desh Assistance Committee, Family Planning Foundation and such other charitable bodies.
- (d) During certain visits of Shri J.R.D. Tata to Europe and United States, he was authorised to discuss matters relating to different companies with regard to foreign collaboration, import of capital goods, etc. and his expenses were shared by different companies.
- (e) Shri J.R.D. Tata, Mr. S. Moolgaokar and various Managing Directors and full time Directors of various companies met periodically to discuss matter of common interest and they were called the Directors' Co-ordinating Committee was said to have no composition or constitution and no functions, no duties, no status or existence in law.
- (f) Tata Services Ltd., Tata Exports Ltd. and Tata Sons Ltd. were providing certain common services for all the Tata Companies.

Dr. Paranjape desired that the Commission should send for Shri J.R.D. Tata who is the Chairman of Telco. Tata Chemicals, Tisco, Tata Sons P. Ltd., Tata Industries P. Ltd., Tata Oil Mills Limited and Indian Hotels Ltd. and Shri Sabawala who is the Chairman of Tata Industries Limited companies and examine them on both with regard to the actual part that they played in taking important decisions regarding various companies of the Tata group. Dr. Paranjape was also of the opinion that Tisco which held 18% of the shares in the equity of Telco should be asked to sell all its shares to public institutions in a specified period of time. The Chairman pointed out that the applicant was a limited liability public company and as such a legal entity by itself. It was not permissible in considering its application to stipulate that some other company, a similar legal entity, should be asked to dispose of its shares in the applicant company. The Commission has no jurisdiction while considering an application by Telco to lay down a condition on Tisco that it should give up its shares in Telco. Further the share of Tisco were already widely held and it was a genuine public company. The shares of the Tata group of Companies and Tata Trusts in the voting rights of Tisco amounted to only 3.3% while public financial institutions like LIC, UTI and banks held 37.6% of the voting rights. Therefore, there was no advantage to the public in compelling Tisco to shed its shareholding of 18% in the capital of Telco. Even if Telco could be pursuaded to accept Dr. Paranjape's proposition that it was interconnected with Tisco, an admission on the part of Telco could not bind Tisco or its Board of Directors which was answerable to its own general body of shareholders. Therefore, if the Commission thought that such a condition was necessary, Tisco would also have to be made a party to the enquiry and the Directors of Tisco would have to be examined on this question of off-loading all its shares in Telco. The permissibility of such a course, as already explained is highly doubtful. We were also clearly of the view that such an enquiry would by itself take the entire time of the Commission for about 6 months. After all, in deciding on such a time consuming and vexatious procedure, the Commission had to consider the ultimate purpose of undertaking such an enquiry. It has been accepted by our colleague that among all the producers of commercial vehicles, Telco was the only company which had adhered to its schedule of production and actually reached the target of installed capacity within the prescribed time while the competitors viz. Hindustan Motors and Premier Automobiles which had been established earlier than Telco, had miserably failed to achieve their targets. It has also been accepted by our colleague after our visit to Telco's factory at Jamshedpur and Poona that Telco, had taken very great pains to achieve the best quality in its products, to promote research and development, and to give effective after-sales service to the consumers. Above all, there was the consideration that the Defence Ministry already made a sizeable purchase of commercial vehicles from Telco and out of the extra production of 3000 off-Highway vehicles proposed at Jamshedpur, a major part was intended for Defence and public undertakings. In the circumstances, we felt that there was absolutely no justification to prolong our investigations into the matter of inter-connection and we decided that the further enquiry should be restricted only to matters other than inter-connection,

Dr. Paranjape has suggested that a decision on Telco's application should not be arrived at without going into the causes of under-utilisation of capacity in the case of the other two major producers of commercial vehicles viz. Hindustan Motors and Premier Automobiles. We will presently show that there is no logic in this suggestion. We have already stated that the total number of commercial vehicles produced in 1970 was 35,829. The target fixed by the Planning Commission for commercial vehicles in 1973-74 is 85,000. It has also been pointed out that the production of commercial vehicles of Hindustan Motors and Premier Automobiles has been going down from year to year. The installed capacity of Premier Automobiles is 6000 and the production in 1969-70 was 3,957, leaving a gap of 2,043. In the case of Hindustan Motors, the installed capacity during 1963-64 to 1969-70 has been 10,500 and the actual production in 1969-70 was 1,525, leaving a gap of 8,975. Even if by means of some magic, these two companies could be made to make up the deficit by the year 1973-74 and if we add the expected addition of 3,000 vehicles by Telco at Jamshedpur, the total production in 1973-74 and if we add the expected addition of 3,000 vehicles by 1etc at Jamshedpur, the total production in 1973-74 would go up only to 49,847 (35,829±3,000±2,043±8,975) as compared with 85,000, the target fixed for 1973-74. It can be nobody's contention that the grant of additional capacity for 3,000 vehicles by 1973-74 in the case of Telco would by any stretch of imagination affect the fortunes of Messrs. Hindustan Motors or that of Premier Automobiles. Therefore, we consider it absolutely unnecessary to go into the reasons for the under-utilised capacity of Hindustan Motors and Premier Automobiles while considering Telco's application for the additional 3,000 vehicles by 1973-74. It has to be mentioned here that the further addition of 9,000 heavy vehicles is to be attained by Telco only by the year 1977-78 in the 5th Five Year Plan period. Therefore, this number of 9,000 vehicles need not be taken into consideration at all so far as the target for the IV five Year Plan is concerned. Apart from this, we feel that in an enquiry under section 21(3) (b) of the Act on the application presented by Telco., we would be exceeding our jurisdiction if we embark on a full-fledged enquiry into the performance of all the companies which have been licensed for the production of commercial vehicles. This suggestion arises out of a mistaken idea of the scope of the Commission's functions in dealing with applications of the kind under consideration. Dr. Paranjape's views would be relevant only if the Commission had the whole of the industry within its purview and is at liberty to make a study of the whole industry for the and make whatever recommendation it considers necessary for the reorganisation and reconstruction of the industry and ignoring the limited scope of its functions under Chapter III of the Act.

We find that the Govt. of India has all along been aware of the under-utilisation of the capacities for making commercial vehicles in the plants of Hindustan Motors and Premier Automobiles. This matter had been gone into by the Ministry of Industrial Development in detail with the representatives of manufacturers of Automobiles and Diesel Engines as early as 16th January, 1961 under the Chairmanship of the then Minister Shri Manubai Shah, and the following decisions were reached:

- (1) M/s. Hindustan Motors Ltd. would be permitted to manufacture their own Bedford diesel engines.
- (2) M/s. Premier Automobiles would likewise be permitted to manufacture a diesel engine of their own choice.
- (3) M/s. Simpson & Co., Ltd., should try to come to an arrangement with M/s. Ashok Leyland Ltd., to produce a chasis of 3-5 ton category so that the difficulties of both might be satisfactorily resolved.
- (4) Till the 31st March, 1963 both Hindustan Motors and Premier Automobiles Limited would continue to purchase their requirements of engines from Simpson & Co., as was being done till then so that Simpson & Company's production capacity would continue to be properly utilised.
- (5) The new diesel engines or the new trucks would not be marketed before the 1st April, 1963.
- (6) The manufacture of the two diesel engines and the new truck would commence from 1st April, 1963 with an indigenous content of 80%. To this end Govt, would be prepared to secure immediate consideration of application, for import of all the capital goods, plant and machinery required by the producers to achieve this indigenous content. The Planning by the manufacturers also right from the beginning would have to be on that basis.
- (7) After 1st April, 1963 there would be no restriction and each truck manufacturer would have full freedom of choice in regard to the gross vehicle weight or the wheel basis he wished to manufacture. In other words, the medium truck manufacturers would be permitted to go over to the

manufacture of heavier trucks. Likewise, the heavier truck manufacturers would be permitted to manufacture medium trucks if they so chose. Also if a truck manufacturer desired to diversify his production of even lighter vehicles than the medium variety, this would be considered favourably.

One of the decisions taken at the meeting held on 16th January, 1961 was M/s. Simpson and M/s. Ashok Leyland should jointly undertake the manufacture of medium truck chassis fitted with P6 engine manufactured by M/s. Simpson. However, for various reasons the negotiations between M/s. Simpson and M/s. Ashok Leyland for the establishment of such a joint venture did not materialise, particularly because M/s. Simpson insisted on a licence for the manufacture of chassis on their own and they had also proposed to manufacture P6-354 engines in place of P6 engines and it was felt that a vehicle fitted with such an engine would be a close competitor to the Leyland Comet being manufactured by Ashok Leyland. In view of these developments, the problems of the automobile industry were again considered at an inter-ministerial meeting held on the 26th March, 1963 and on 1st April, 1963. The consensus of opinion at this meeting as that the balance of advantage in the context of the long-term interests of development of the industry lay in the following directions:

- (a) Simpson might be allowed to expand their engine capacity upto 12,000 Nos. per annum forthwith. They should be permitted to manufacture P-6 354 engines, as this was, technologically, a progressive step;
 - (i) Hindustan Motors and Premiers should be permitted to undertake the manufacture of their own engines, working upto a capacity of 15,000 engines each.
 - (ii) Simpson might be permitted to manufacture their own Chassis upto 12,000 Nos. capacity.
 - (iii) Approvals conveying the above decisions should be accorded in such a manner that the completion of the programme for the manufacture of engines by Hindustan Motors and premiers and the manufactures of chassis by Simpsons were synchronised.

These decisions were conveyed to M/s. Simpson, Hindustan Motors and Premier Automobiles through a letter dated the 17th June, 1963. M/s. Hindustan Motors submitted a complete scheme by September, 1963 for the import of capital goods but M/s. Premiers Automobiles did not submit any detailed proposals. No detailed proposals had also been received at that time from M/s. Simpson for the manufacture of trucks. Therefore, the Capital Goods committee cleared the application of M/s. Hindustan Motors. Subsequently M/s. Hindustan Motors were permitted to negotiate a direct loan with USAID and USAID granted a loan of \$23 million on 7th July, 1964. M/s. Premier Automobiles submitted its project report and loan application only in June, 1964. Simpson also submitted their project report for the manufacture of a new chassis. The applications of M/s. Premier Automobiles and M/s. Simpson were looked into by the World Bank in connection with negotiations for I.D.A., loan to the automobile and other industries. The World Bank expressed serious doubt whether the demand in the country really justified the setting up of two more independent producers of commercial vehicles and suggested that M/s. Simpson might be tooled upto produce a suitable heavier engine which could be fixed on the Premier chassis with minor modifications. Therefore, it was decided that Premier's programme should not be permitted until the Govt. had re-surveyed the demand and therefore, the loan application of Premier Automobile was not sponsored for direct U.S. Aid Loan. M/s. Simpson also did not make any headway with their chassis manufacturing programme, primarily because they could not find a suitable foreign collaborator and also on account of their own internal problems. The present position is that M/s. Simpson has developed a more powerful engine P-6/354 for supply to M/s. Premier Automobiles for fitment in their Dodge Vehicles. M/s. Premier Automobiles have stated that they are unable to get an adequate number of engines from M/s. Simpson & Co. Vide Annual report of Premier Automobiles, for the year 1970-71. On the other hand M/s. Simpson & Co. have stated that they have excess capacity for the manufacture of diesel engines and on account of the absence of demand from M/s. Premier Automobiles, the production of Perkins Engines has been going down from year to year as shown below:-

Year	Perkings P6V & P6/354
1961	9,761
1962	7,653
1963	7,993

Year	Perkings P6V & P6/354	
1964	7,625	
1965	7,847	
1966	6,711	
1967	2,873	
1968	2,431	
1969	2,666	

Thus, it would be seen that the problem of under-utilisation of capacity of Hindustan Motors and Premier Auotmobiles is really a complex matter which has to be gone into by expert engineers with reference to the historical factors and the present opposition of the three companies, viz. Hindustan Motors, M/s. Simpson & Co. and premier Automobiles. We have reason to believe that the Govt. of India is very well aware of this problem as would be seen from the reply given by Shri Moinul Haque Chaudhary in the Lok Sabha on 26th November, 1971. The Minister stated that the question of taking over Premier Automobiles' was being examined.

One other point which has been developed by Dr. Paranjape is the possibility of utilising the expertise developed by Telco for the proper management of Hindustan Motors and Premier Automobiles, plants dealing with the manufacture of commercial vehicles. A specific question was addressed to Shri Moolgaokar, Vice-Chairman of Telco by Dr. Paranjape during the public hearing on this matter and he was asked whether it was not in the interest of the country that some formula should be evolved for lending the expertise built up by Telco to Government or to the managements of Hindustan Motors and Premier Automobiles with a view to helping the latter for achieving production upto the full installed capacity. Shri Moolgaokar replied categorically that the suggestion was not feasible. He stated that the efficient management of a truck manufacturing company required the laborious building up of expert engineers, technicians and managers over a period of several years and Telco did not have an abundance of such material. In fact it was going to be a job for Telco to find adequate qualified personnel for putting through its own expansion programme which would occupy the years 1972-73 to 1977-78. Telco was certainly not in a position to release any of the trained men either to Govt. or to Hindustan Motors or Premier Automobiles. We are in full agreement with Shri Moolgaokar's view and we do not consider that the suggestion of Dr. Paranjape would be really feasible.

In the present case, our approach from the very beginning as to examine whether the applicant company had in the past made a positive contribution to the national economy, whether it had achieved technical efficiency in its production, whether it gave the consumer a reliable product, whether it gave the consumer good after-sale service and whether the company had exploited its monopoly position in the market. In order to satisfy ourselves on these points, we called for extensive information from the company, the users of the companies' product like D.G.DS. and Defence and the owners of fleets of trucks and buses, the suppliers of anciliaries to the company and independent dent bodies like the All India Automobile Manufacturers Association and the All Indian Anciliaries Manufacturers Association. The Chairman and members including Dr. Paranjape, spent considerable time in verifying the claims made by the company by paying a visit to the companies' establishments at Jamshedpur and Poona with a view to seeing for ourselves the functioning of the quality control and testing Departments. On the otherhand, the approach of our colleague, Dr. Paranjape, has been to find out some means or other of removing totally or in part the control of the present management of the company consisting mainly of Shri J.R.D. Tata, and Shri Moolgaokar. We have been unable to appreciate this attitude. If today, Telco has been able to make steady and consistent progress in the manufacture of dependable trucks and to achieve the level of being able to dispense with foreign collaboration and undertake an expansion scheme of its own, while other powerful companies who had the benefit of foreign collaborations are struggling for existence, it is in no small measure due to the careful manner in which Shri J.R.D. Tata and Shri Moolgaokar have built up an efficient team of young engineers and adequate machinery for the production and quality control of a sophisticated item like trucks. If we remove that management or dilute it, we would only be helping to introduce inefficiency which is writ large on the face of many industrial undertakings. This approach is in our view doctrinaire and outdated. It may have some relevance in countries where the financial institutions are in private hands. Here in our country the L.I.C. which is the largest single holder of liquid funds is in the public Sector. General insurance business is also now in the public sector. The overwhelmingly major portion of banking funds is also in the

public sector. And between them they hold a sizeable portion of the shares in many limited companies in the private sector including Telco and Tisco. This approach is therefore meaningless. In most of these companies the public sector financial institutions have either a controlling interest or are the major shareholders. Strictly speaking there is now very little of the private sector in industry. If the Government decides, as a matter of policy, to take over any of the so-called private sector industries they are in a position to do so merely by virtue of these shares held by L.I.C., and the public sector financial institutions. Even otherwise they have enough power to do so. The main problem in the case of many big industries is, as is well known, paucity of good managerial personnel. As Mr. Moolgaokar, in the course of the Commission's hearing, graphically put it, it is managerial indigestion. So when we find that a so-called private sector industrial undertaking is efficiently managed and is producing excellent results, we are loathe to disturb it. If and when the public sector feels confident of managing it or wants to take over the management, it can easily do so. Till then such exercises, as Dr. Paranjape wants the Commission to indulge in, born out of doctrinaire and outdated opinions, need not be countenanced. We want to state here clearly that in any case the M.R.T.P. Act does not allow the pursuit of any doctrinaire approaches. The Commission has to go strictly by the provisions of the Act and see whether the proposal before it would work to the Common detriment or whether it would serve the public interest. If the Commission is satisfied on the ground of public interest it cannot, in our opinion try to use the enquiry as an instrument for bludgeoning the company into the acceptance of unjustified conditions regarding the ownership or management.

Recommendations:—In its Office Memorandum dated 16th April, 1971 the Department of Industrial Development and Internal Trade have stated that the licensed capacity for manufacture of commercial vehicles in the country was 73,400 Nos. per annum which included the present capacity of Telco, Viz., 24,000 Letters of Intent have been given to M/s. Ashok Leyland for effecting a substantial expansion of their undertaking from a capacity of 5400 Nos. per annum to 10,000 Nos. per annum and to M/s. Insov Auto Ltd., Calcutta for a fresh capacity of 12,000 Nos. per annum. Thus, if it were decided to grant the expansion of capacity to M/s. Telco from 24,000 to 36,000 Nos. per annum the share of the firm would be only 36,000 out of a total capacity of 1,02,000. This would give a percentage of 35. In other words, the market share of Telco which was 61% in 1969-70 on the basis of actual production would go down to 35% on the basis of sanctioned capacity if the expansion proposed by M/s. Ashok Leyland and Telco and the new capacity proposed by M/s. Insov Auto Limited were implemented. The Defence Ministry has also informed the Commission that it depended mainly on the trucks produced by Telco and the vehicle supplied by Telco had given satisfactory service. The reply given by D. G. S. & D. also shows that Government indentors have on the whole preferred Telco vehicles to vehicles manufactured by other manufacturers. The majority of fleet owners have also supported the proposal for giving additional capacity to Telco.

We have already dealt with the claims made by Telco with regard to the steps taken by it for achieving strict equality in products manufactured by the company as well as products which were brought out from producers of ancillary goods. The Members of the Commission decided to see for themselves how for these claims were justified by paying a visit to Telco's factories at Poona and Jamshedpur. Accordingly the Chairman and Members of the Commission visited the factory of Telco at Poona on 28th August, 1971 and Jamshedpur on 13th September, 1971. The Commission noted that the company had acquired extensive land at Poona and put up adequate facilities for a Research and Development Division. The company had also built up facilities for re-conditioning of old machine tools and for testing the performance of engines manufactured by Telco as well as parts bought from ancillary producers like shock absorbers and fuel injections. If even a single component out of one lot was found not upto the mark, the whole lot was rejected. The company had also established an excellent training school for training 250 apprentices. We also saw the actual performance of one of the highway vehicles on rough terrain.

At Jamshedpur we paid particular attention to the laboratory facilities for testing of raw materials and ancillaries and we were satisfied that the company took very great pains to see that proper qualities of raw materials were maintained in its own manufacture as well as in the parts supplied by ancillary industries. Considerable attention was also being paid in the testing laboratories to the measurements of the exact specifications of various parts. A percentage of the parts was checked during the process of manufacture and each of the finally assembled vehicles was also tested on the road before despatch. We also saw very fine test track on which new typs of vehicles are tested. In the Board Room we examined the charts showing the arrangements for distribution of vehicles and spare parts and the system adopted for dealing with complaints from the consumers. We also saw the fine computor system which has been recently introduced for keeping track of the inventories and making quick compliance of orders for spare parts. On the whole, we were very much impressed by the amount of technical skill which has been built up and the amount of trouble which

the management is taking in ensuring the production of a vehicle which would give long and trouble free service to the purchaser. We may state here that our colleague Dr. Paranjape had paid a visit to the factory of M/s. Premier Automobiles and discussed the reasons for the low production with the Managing Director of the company. This matter has been dealt within paragraph 10(4) of the report. We also wanted to visit the plant of M/s. Hindustan Motors on our return from Jamshed-pur but the plant was not working as it had been flooded and we could not see its plant. However, the recent figures of production of these two companies clearly show that it would be some years before they can even reach their existing capacity. Therefore, we have come to the conclusion that it is in the national interest to allow the proposal for expansion of M/s. Telco. We accordingly recommend to the Government that the company's proposal may be sanctioned as early as possible. Our recommendation is subject to the fulfilment of the following conditions by the company:—

- (1) The company should not augment any capacity in its present plant or instal new capacity in the new plant for manufature of any of the following items:
 - (i) Connecting Rod Bushing
 - (ii) Fuel Tank Cap
 - (iii) Radiator Cap
 - (iv) Exhaust Muffler
 - (v) Exhaust Pipe
 - (vi) Tail Pipe
 - (vii) Oil Filter
 - (viii) Leaf Springs
 - (ix) Spring and Bolts
 - (x) Spring centre Bolts
 - (xi) Spring Shackle Pins
 - (xii) Wire Harness
 - (xiii) Spring Seat, and
 - (xiv) Hydraulic Jacks.



The company should gradually hire off these items to the ancillary industry.

- (2) The indigenous content should be progressively increased and the value of the import content should not exceed Rs. 750/- per vehicle.
- (3) The company should undertake to export vehicles and spares thereof to the minimum extent of 10% of the total production in any year.
- (4) The period for which the company give warranty in respect of commercial vehicles should be revised to cover:
 - (i) The period during which a vechicle shall have travelled a total distance of 32,000 kms or 20,000 miles:

or

(ii) a period of six months from the date of first registration of the vehicle under the Indian Motor Vehicles Act;

or

- (iii) a period of 12 months from the date of despatch of the chassis from the factory; whichever period expires first.
- (5) The expansion of 12,000 vehicles should be reached as early as possible and in any case not later than 31st March, 1978. The company should not be allowed to postpone the completion of the scheme with a view to cover any gaps in the funds available by the profits of future years and thus avoid taking of loans from public financial institutions. If on account of any reason there

is a shortfall in the funds available according to the revised scheme of finance submitted by the company, the company must borrow the necessary funds from the public financial institutions and see that the scheme of expansion is completed by 31st March, 1978.

- (6) The highest priority should be given to the setting up of the machinery for manufacturing spare parts with the help of the imported machine tools covered by the licence issued to the company on 3rd August, 1970 and every effort should be made to expand the production of spare parts to the maximum extent by 31st March, 1973.
- (7) The economics of scale achieved by the expansion programme should be passed on to the consumer. For this purpose the company should be informed that the pricing of its products should be arranged in such a way that the rate of gross profit arrived at after allowing interest but not allowing the preciation, development rebate and taxation, should not in the period of expansion year thereafter exceed the base rate of such gross profits to net sales in the years 1968-69 and 1970-71 which has been worked out by the company itself at 11.25% vide copy of the company's calculation attached. However, as it would be extremely, difficult to change the price frequently in order to attain the above maximum rate of gross profit, the company would be allowed the flexibility to adjust the excess or shortfall of gross profit of any year during the three years following that year subject to an overall limitation that the limitation that the average gross profit to net sales during the period of expansion and one year thereafter does not exceed 11.85% of the net sales (i.e. total sales excluding duty).

While concluding our report, we must acknowledge the extreme cooperation which we have received from the Chairman, the Vice Chairman and Officers of the applicant company in furnishing detailed information about the various activities of the company vary often at short notice.

I have submitted a separate report.

(SD/-(A. ALAGIRISWAMI) Chairman 10-12-71

(Sd-) (D. SUBRAMANIAN) Member 10-12-71

(Sd/-) (H.K. PARANJAPE) Member, 10-12-1971

APPENDIX I

सन्धमन जयन

Copy of M.R.T.P. Commission, New Delhi, letter to the 1(10)-Eng./71 dated the 26th July, 1971 adressed to 45 fleets owners (Transport Operators).

Subject:— Enquiry under Section 21(3) (b) of the .M.R.T.P. Act, 1969-M/s. Tata Engineering Locomotive Company Ltd.—Information regarding.

The application of M/s. Tata Engineering and Locomotive Company Ltd., for the year manufacture of 9000 medium and heavy vehicles, 3000 off-highway vehicles and for the establishment of an alloy iron foundry (of 10,000 tonnes annual capacity) has been referred to the Commission by the Government of India for enquiry and report.

The Commission fees that your organisation as a fleet owner of commercial vehicles can furnish useful information regarding the performance of commercial vehicles manufactured by various producers in the country. I am, therefore, desired by the Commission to request you to please furnish information on the following points at your earliest convenience latest by the 10th of August, 1971. The comments given should, as far as possible, be supported by facts and figures.

- (i) Number of various makes of new commercial vehicles purchased during the current half year preceding 5 years. If possible purchases of different brands may be classified capacity-wise viz. I tonners, 3 tonners, 7½ tonners, etc.
- (ii) How the vehicles purchased have been used a trucks/buses, etc. whether in your opinion some particular brands can be said to be more suited for one type of use only.

- (iii) What has been your preferences in the matter of purchase of vehicles from the point of view of utility, service and satisfaction?
- (iv) What has been the comparative standard of after sale services of the different producers?
- (v) Whether in your opinion the prices charged for such vehicles during the last few years have been reasonable?
- (vi) Whether the distributorship arrangements made by the existing manufacturers are satisfactory? If not what difficulties/inconvenience have been experienced in this direction?
- (vii) Whether in your opinion the expansion proposal of M/s. Tata Engineering & Locomotive Company Limited should be agreed to?

The information mentioned above is being called for under Section 12 of the Monopolies & Restrictive Trade Pratices Act, 1969 and compliance from your side by the date mentioned earlier is mandatory.

Thanking you,

APPENDIX I

List of Fleet Owners

- The General Manager, B.E.S. & T. Undertaking, Best House, Colaba, Bombay-1.
- 2. The Transport Manager, Poona Municipal Transport, Swargate, Poona-2.
- The Director, Madras State Transport Department, Transport House, Mount Road, Madras.
- 4. The General Manager, Kerala State Road Transport Corpn. Trivandrun.
- 5. The Chief Executive Officer, Andhra Pradesh State Road Transport Corporation, Mushirabad, Hyderabad.
- 6. The General Manager,
 Mysore State Road Transport Corpn.
 Transport House,
 Kengal Hanumanthaiya Road, Shantinagar, Bangalore-27.
- The General Manager, Madhya Pradesh State Road Transport Corpn., Stores & Purchase Department, Bairagarh, Bhopal.
- 8. The General Manager, Calcutta State Transport Corpn. Sultan Palace, Gardiner Road, Patna.
- 9. The General Manager, Calcutta State Transport Corpn., 5, Nilgunge Road, Balghoria, Calcutta-56.
- The Director of Transport, Government of Assam, Transport & Industries Department, Shillong.
- The General Manager,
 Transport, Delhi Transport Undertaking,
 (of the Municipal Corporation of Delhi),
 I.P. Estate, New Delhi-1.
- The U.P. Parivahan Ayukta, (Roadways-Operation), Karyalaya Parivahan Aykta, Lucknow.

- 13. The General Manager, Himachal Government Transport, Simla.
- The General Manager, M.K. Road Transport Corporation, Mandi.
- 15. The State Transport Controller, Jammu & Kashmir Transport Service, Sringagar.
- 16. The Provincial Transport Controller, Punjab Transport Department, New Secretariat, Chandigarh.
- 17. The General Manager, Rajasthan State Road, Transport Corpn., Jaipur.
- 18. Vice-Chairman and General Manager, Gujarat State Road Transport Corpn., Central Offices, Vahan Vyavahar Bhavan, Astodia, Ahmedabad-1.
- 19. The Transport Manager, Ahmedabad Municipal Transport Service, Transport House, Outside Jamalpur Gate, P.O. Box No. 142, Ahmedabad-1.
- The General Manager, Maharashtra State Road Transport Corpn., Central Stores, Bellasis Road, Byculla, Bombay-8.
- 21. M/s. Singh Transport Co., 275, Reay Road, Bombay-10.
- 22. M/s. Hanumanprasad Laxminarayan (Transport), 207, Maharashi Debendra Road, Calcutta-7.
- 23. M/s. Central Road Transport Corpn., Ltd., 18, Rabindra Sarani, Calcutta-1.
- M/s. Southern Roadways Pvt. Ltd., Usilampatti Road, Kochadai, Madurai.
- 25. M/s. M.B.T. Co., 36, Second Line Beach, Madras.
- 26. M/s. Natwar Transport Co. Ltd., Nagpur-2.
- 27. M/s. Ashoke Transport Agency, 94, Chittaranjan Avenue, Calcutta-12.
- 28. M/s. Muzaffarpur Motor Transport, Co-operative Society Ltd., Motijhil, Muzaffarpur.
- 29. M/s. Air Assam, 81-B, Lower Chitpur Road, Calcutta-7.
- 30. M/s. Air Transport Corporation, 14, Tarachand Dutt Street, Calcutta-7.
- 31. M/s. Bombay Andhra Transport Co., 113, Bhandari Street, Chakala, Bombay.
- 32. M/s. Bharat Transport Company, Sardar Patel Marg, Allahabad.
- 33. M/s. Capital Service Private Ltd., 20/1, Asaf Ali Road, New Delhi-1.
- 34. M/s. I.S. Goel & Company, 16, Sunder Nagar Market, New Delhi.
- 35. M/s. Jaipur Golden Transport Co. Pvt. Ltd., XII/4736-41, Roshanara Road, Delhi-7.
- 36. M/s. Kanpur Bombay Motor Transport Co. Pvt. Ltd., Birhana Place, Kanpur.
- 37. M/s. Kilburn & Co. Ltd., Road Transport Department, 2, Fairlie Place, Calcutta.
- 38. M/s. Kamal Bus Service (P) Ltd., Sobha Singh Building, Ajmeri Gate, Delhi.
- 39. M/s. Raipur Transport Co. Pvt. Ltd., Raipur.

- 40. M/s. Savani Transport Pvt. Ltd., 163, D' Mello Road, Bombay-1.
- 41. M/s. S. C. Bros., Lorry Transport Service, 41, Narisimha Chettiar Road, Salem-2.
- 42. M/s. Transport Corporation of India Private Ltd., 25-27, Kalikrishna Tagore Street, Calcutta-7.
- 43. The General Manager,
 Burmah Shell Oil Storage & Distributing Company of India Ltd.,
 Burmah Shell House, Ballard Estate Bombay-1.
- 44. M/s. Bombay Transport Co-operative Consumers Society Limited, Raichur Street, Bombay-9.
- 45. M/s. Kolhapur Motor Transport, Producers' and Consumer's Co-operative Society Ltd., 1298, 'C' Ward, Laxmipuri, Kolhapur.

APPENDIX II

Role of Retained earnings in financing Telco

1960-61 to 1970-71

Year			Equity Div	vidend	Retained	Provision for Deve-	Develop- ment	Retained Earnings	Retained Earnings
			Percentage	Amount (Rs.) Crores)	Earnings (Rs. Crores)	lopment Rebate Reserve (Rs. Crores)	Rebate Reserve as % of Retained Earnings	as % of Sales	as % of Capital Employ- ed.
			1	2	3	4	5	6	7
1960-61			14.5	1.16	0.65	0.45	69.2	1.9	2.5
1961-62	•		14.5	1.16	0.66	0.40	60.6	1.7	2.3
1962-63			14.5	1.16	0.18	0.27	150.0	0.5	0.6
1963-64			14.5	1.35	0.60	0.68	113.3	1.3	1.4
1964-65			14.5	1.49	1.14	0.95	83.3	1.9	2.1
1965-66			14.5	1.74	0.97	0.86	88.7	1.3	1.6
1966-67	, •	•	14.5	2.08	1.93	1.87	96.9	2.3	2.7
1967-68			14.5	2.08	0.94	1.83	194.7	1.1	1.1
1968-69			14.5	2.08	1.74	1.84	105.7	1.8	1.9
1969-70		•	13.5	1.94	0.53	1.43	269.8	0.6	0.5
1970-71			14.5	2.08	1.68	1.15	68.5	1.3	1.8
Annual a over the p 1960-61 t	perio	d				·	118.2	1.4	1.7

Notes: (1) Sales figures excludes excise duty.

⁽²⁾ Capital employed figures exclude current liabilities.

⁽³⁾ Retained earning=Profits after Taxation Minus dividends paid (both equity and preference).

APPENDIX III

List of Persons who attended the Public Hearings on the 16th and 17th November, 1971 in the case of TELCO Enquiry

On the 16th November, 1971

- 1. Dr. P. P. Mohla, D.C.M., Delhi.
- 2. Shri T. V. Narayanaswamy, D.C.M., Delhi.
- 3. Shri Ratnam, D.C.M., Delhi.
- 4. Shri P.K. Sandell, D.C.M., Delhi.
- 5. Shri D. S. Mehta, Secretary, Bajaj Auto Ltd.
- 6. Shri M. L. Salian, Chief Accountant, Bajaj Auto Ltd., Poona.
- 7. Shri G. C. Choudhury, B.M., Bajaj Auto Ltd., New Delhi.
- 8. Shri M. K. Mukerjee, Tech. Director, Insov Auto Ltd., Calcutta.
- 9. Shri M. K. Gupta, M.C., Insov Auto Ltd., New Delhi.
- 10. Shri C.V.K. Murthirao, Secretary, AIAM.
- 11. Shri A. R. Venkataraman, Marketing Manager, Simpsons.
- 12. Shri S. Santhanam, Chief Liaison Officer, Simpsons.
- 13. Shri K. V. Vaidyanathan, Resident Manager, Telco, New Delhi.
- 14. Shri K. K. Kochhay, Regional SOS Manager, TELCO, New Delhi.
- 15. Shri Avinash Kirpal, Public Affairs Officer, Tata Services, New Delhi.
- 16. Shri M. Balachandran, Telco, New Delhi.
- 17. Shri N. Venkataraman, Telco, New Delhi-1.
- 18. Shri K. S. Raman, Telco, New Delhi-1.
- 19. Mr. Steve Pinto, Student, New Delhi.

On the 17th November, 1971

- 1. Shri T. V. Narayanaswamy, D.C.M., Delhi.
- 2. Shri P. K. Sandell, D.C.M., Delhi.
- 3. Shri S. Ratnam, D.C.M., Delhi.
- 4. Shri B. K. Shroff, 52/19, Ramjas Road, Delhi-5.
- 5. Shri M. Balachandran, Telco, New Delhi.
- 6. Shri N. Venkataraman, Telco, New Delhi-1.
- 7. Shri S. Santhanam, Chief Liaison Officer, Simpson Co. Ltd.
- 8. Shri A. R. Venkataraman, Simpsons.
- 9. Mr. S. Pinto, Student, New Delhi.
- 10. Shri A. Kirpal, Public Affairs Officer, Tata Services, New Delhi.
- 11. Shri T. R. Sachdeva, A.P.I., Ltd., New Delhi.
- 12. Shri M. C. Salien, Bajaj Auto Ltd.
- 13. Shri D. S. Mehta, Bajaj Auto Ltd.
- 14. Shri G. C. Choudhury, Bajaj Auto Ltd., Delhi.
- 15. Shri C. K. Shashank Rao, Scooter Wheels, Bombay-54.
- 16. Shri C.V.K. Murthy Rao, Sec. AIAM, Bombay-1.
- 17. Shri M. K. Mukerjee
- 18. Shri C. L. Sen Gupta
- 19. Shri S. M. K. Gupta
- 20. Shri S. D. Sabarwal
- 21. Shri K. K. Malhotra, TVS Group
- 22. Shri K. S. Raman, TELCO., Parl. Street,
- 23. Shri P. Majumdar, Patriot.

38-8 M of LJ & CA/ND/79

Insov Auto Ltd.

APPENDIX IV
Statement I
Revised Scheme of Finance of M/s. Tata Engineering & Locomotives Company Ltd.
Sources and Uses of Funds

(Rupees in Crores)

	1971-	72 1972	-73 19	973-74	1974-75	971-72 1972-73 1973-74 1974-75 1975-76 1976-77 1977-78 1971-72 1978-79 1979-80 1980-81	1976-77	1977-78	1971-72	1978-79	1979-80	1980-81
									to 1977-78			
1	2	3	_	4	5	9	7	8	6	10	11	12
I. Sources:												
(a) Cash Generation (Depreciation & Re-				ç	i c	9	9		9	98	7.	1 CO
	. 10.40	0 12.77		13.85	13.17	13.68	14.93	14.93	93.73	14.30	14.73	10.02
(b) Funds from C.B.I. Ltd. on merger	er . 17.50			į	:		:	:	17.50	:	:	:
(c) ICICI Loan	. 1.53		0.47				:	:	2.00	:	•.	:
(d) New foreign exchange loans (to be	o pe		यमे									
negotiated)		2.	2.80	4.30	2.60	4.70	3.50	:	17.90	:	:	:
TOTAL	29.43	3 16.04	11111	18.15	15.77	18.38	18.43	14.93	131.13	14.56	14.75	15.02
II. Uses:						3						
(a) Total Capital Expenditure	. 10.50		12.50	12.84	10.35	18.48	15.46	3.85	83.98	5.00	00.9	6.00
(b) Repayment of long term loans	. 2.36		5.73	2.28	3.43	2.11	1.92	2.85	20.69	2.85	2.85	2.60
	12.86	6 18.23		15.12	13.78	20.59	17.38	6.70	104.66	7.85	8.85	8.60
III. Surplus/Desicit After Meeting Capital Requirements:												
(a) For the year	. +16.57	7 —2.19		+3.03	+1.90	-2.21	+1.05	+8.23	+26.47 + 6.71	+6.71	+5.90	+6.42
(b) Cumulative	. +16.57	17 + 14.38		+17.41	+19.40 +17.29		+18.24	+26.47		+33.18	+39.08	+45.50
IV. Additional Working Capital	. 10.24		4.61	3.40	6.94	0.49	8.62	15.50	49.80	:	. :	:
V. Surplus/Deficit After Meeting Working Capital Requirement:	Capital											
(a) for the year	. +6.33	13 —6.80		-0.37	4.95	-2.70	-7.57	-7.27	-7.27 -23.33	+6.71	+5.90	+6.42
(b) Cumulative	+6.33	13 -0.47		-0.84	-5.79	8.49	-8.49 - 16.06 - 23.33	-23.33		-16.62	0.72	4.30

Statement II

Tata Engineering & Locomotive Co. Limited

Turnover

										Jane	(many manday)
Description		1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
1		2	8	4	5	9	7	8	6	10	=
Diesel Vehicles	•	119.22	129.92	137.08	150.15	150.20	169.18	204.87	208.87	204.87	204.87
Recovery of Excise Duty	•	9,93	10.19	10.54	10.81	10.63	11.51	14.58	14.58	14.58	14.58
Automobile Spare Parts .	•	15.00	16.50	17.50	21.50	22.86	24.56	24.56	24.56	24.56	24.56
Excavators Spares	•	8.00	00.6	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Other Engineering Products*	•	9.68	12.75	16.75	16.75	16.75	16.75	16.75	16.75	16.75	16.75
	·	161.83	178.36	191,87	209.21	210.44	232.00	270.76	270.76	270.76	270.76

*Includes Dumpers, Tippers, Forklifts, Steel Castings, Machine Tools, Front end Loaders, Industrial tractors Etc.

Statement III

Tata Engineering & Locomotive Company Ltd.

Phasing of Capital Expenditure

		Phasing	Phasing of Capital Expenditure	al Expe	nditure				(Ru	(Rupees in Crores)	rores)
Description	971-72	1972-73	1971-72 1972-73 1973-74 1974-75	1974-75	77-92 1976-77	1976-77	1977-78	Total 1971-72 to 1977-78 19	o 1978-79	01978-79 1979-80 1980-81	1980-81
	2	3	4	5	9	7	8	6	10	=	. 15
A. Expansion Projects:											
(i) Rupee capital expenditure	1.22	4.72	1.78	2.12	8.54	9.59	:	27.97	:	:	:
(u) Capital expenditure to be financed by foreign exchange loans	:	1.30	2.80	1.40	4.00	3.00	:	12.50	:	:	:
(iii) Sub Total	1.22	6.02	4.58	3.52	12.54	12.59	:	40.47	:	:	:
B. Current Project including replacement: (i) Rupee capital expenditure	7.75	4.51	6.76	5,63	5.24	2.37	3.85	36.11	5.00	6.00	00.9
(u) Capital Expenditure financed by ICICI loan	1.53	0.47	}	:	3	:	:	2.00	:	•	:
(iii) Gapital expenditure to be financed by additional foreign Exchange loans .	:	1.50	1.50	1.20	0.70	0.50	:	5.40	:	:	:
(iv) Sub Total	9.28	6.48	8.26	6.83	5.94	2.87	3.85	43.51	5.00	6.00	6.00
Total 'A' & 'B'			. ·								
(i) Rupee Capital expenditure	8.97	9.23	8.54	7.75	13.78	11.96	3.85	64.08	5.00	00.9	00.9
(u) Capital expenditure inanced by ICICI loan	1.53	0.47	:	:	:	:	:	2.00	:	:	· :
(III) Capital Expenditure to be manced by additional foreign exchange loans .	:	2.80	4.30	2.60	4.70	3.50	•	17.90	:	:	:
(iv) TOTAL	10.50	12.50	12.84	10.35	18.48	15.46	3.85	83.98	5.00	6.00	6.00

APPENDIX IV

Telco ratio funds generated to net sales

(Figures indicate rupees in lakhs)

					1966-67	1967-68	1968-69	1969-70	1970-71
1.	Net Profit before taxas	ion :	and Do	ev.					
	Rebate			•	620.15	394.76	582.15	273.56	673.00
2.	Depreciation Debited		•		505.05	571.82	629.95	662.40	749.2
3.	Gross Profit before dep	recia	tion D	R.					
	and Taxation (I+II)		•		1125.20	966.58	1212.10	935.96	1422.2
4.	Gross Sales	•	•		9065.20	9499.56	10590.15	9812.54	13625.3
5.	Excise Duty .				841.42	851.47	960.05	819.65	1017.6
6.	Net Sales (IV-V).				8223.78	8648.09	9630.10	8992.89	12606.7
7.	Ratio of gross funds ge	enera	ted to	net				3002.00	14,000.7
	sales III/IV .		•	•	13.06	11.01	12.39	10.41	11.2

Annexure V

Copy of Tata Engineering and Locomotive Company Limited, Bombay Letter No. At./01001-B/15671 Dated 24/25th November, 1971.

The Monopolies and Restrictive Trade Practices Commission, Bharat Scouts & Guides Building, Indraprastha Estate, 16, Ring Road, New Delhi-1

At the public hearing held in Delhi on the 17th November, the Commission had suggested, as one of the eight conditions, that the economies of scale achieved by the expansion programme should be passed on to the consumer and, in any case, the Company should not increase, till one year after the expansion of 12,000 vehicles is achieved, the rate of gross profits ascertained before deduction of depreciation and development rebate beyond the average of the last three years.

- 2. Regarding the economies of scale, we reiterate the views already stressed by us at the hearing:—
 - (i) As the expansion of vehicle production is at a new location and is for a type of vehicle which has not yet been finalised, and even the prototypes of which are not yet ready, and which will be produced after many years, it is not possible to assess, with any degree of accuracy, what will be the economies of scale. In fact, inflation is likely to offset any such economies.
 - (ii) In all fairness, the customer should not be the sole beneficiary. The benefits, if any, should be shared for maintaining the health of the plant, for the benefit of the employees as well as the shareholders.
 - 3. In the circumstances, we regret greatly that we cannot accept such a condition.
- 4. As regards the constraint on the rate of profits, we whould like to emphasize that the scope for increasing the rate of profit in such an expansion scheme is limited; we have to produce a heavy vehicle which has necessarily to be so priced that the operating cost per tonne mile is lower than the cost per tonne mile of operation of our present popular vehicle.
- 5. We have always kept in the forefront the interest of our customers and the nation, as is evident from the customer preferance shown to our vehicles, our impressive export performance and the modest profit margins retained by the company in the past. In our view, any such restraint is

not called for. If, however, it is decided by the Commission to recommend any such restriction, then in view of the great need to increase the commercial vehicle production in the country, we would be prepared to accept reluctantly this condition, subject to the following:

- (a) The base rate of gross profit to turnover should be calculated by taking the average of two years, viz. 1968-69 and 1970-71, excluding the year of 1969-70, since the results of that year were adversely affected by a 48 days strike. On this basis, the percentage of gross profit to turnover will work out to 11.85%, as shown in the attached a statement.
- (b) We feel that it will be extremely difficult to change our prices frequently so that the rate of gross profit remains uniform and unchanged throughout. We, therefore, suggest that the company should have the flexibility to adjust the excess or short-fall of gross profit of any year during the three years following that year, subject to the overall limitation that the average gross profit to turnover, during the period of expansion and one year after, does not exceed 11.85%.

Annexure I

Tata Engineering & Locomotive Co. Ltd., Bombay House, 24, Bruce Street, Fort, Bombay-1.

						areno s	inter	s Profit after est but before eciation	Turnover excluding excise duty (Rs. in lakhs)
1968-69			•		É			1212	9630
1970-71			•		19		W. 1562	1422	12606
Average			•	• .	. 6		37/7	1200	10295
Average ra	ate of	gross	profit	to tu	rnove		TY	11.85%	

APPENDIX VI

Copy of Monopolies and Restrictive Trade Practices Commission letter No. 1(10)-Enq./71 dated 28th July, addressed to companies regarding capital structure and common facilities.

Subject:—Enquiry under Section 21(3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969 — M/s. Tata Engineering & Locomotice Company Ltd. — calling of information.

With reference to the above, I have to request yout to please make it convenient to send the following information pertaining to your company at your earliest convenience latest by the 12th August, 1971:

- 1. Names of the shareholders holding more than 1% of the total subscribed capital (equity, preference or of any other category) in the company as on today and as on the last days of the three previous accounting periods.
- 2. Names of the Directors of the company during the period referred to at (1) above and details regarding other Directorships etc., held by them during this period.
- 3. Please furnish an organisation chart of the company. Also state the specific roles assigned to the Chairman/Vice-Chairman/Managing Director/other Directors/Secretary, Committee of Directors/Senior Executives (ignore those which are not applicable) with information about the power(s) delegated to these.
- 4. Please mention broadly about the main business of the Company.
- 5. Details about common facilities enjoyed by the company with other Tata companies and organisations as listed in the Report of the Industrial Licensing Policy Enquiry Committee during the above period may be given.

- 6. The names and addresses of
 - (a) auditors
 - (b) Solicitors and legal advisers
 - (c) publicity agents
 - (d) main purchasing agents
 - (e) Main selling/distributing agents

in India and abroad

of the company as at present and during the last three years may be furnished.

- 7. Whether the company participated in the recent Tata exhibition at Delhi? If so, the following details may be furnishd:
- (i) Who were the organisers of the exhibition?
- (ii) Who in the management of the company took the decision that the company should participate in this exhibition?
- (iii) What common facilities were provided by the organisers of the company for this exhibition?
- (iv) How much money the company was required to incur for this exhibition and how the same was worked out? Classification of expenses under various heads like establishment, rent, advertisement and publicity etc., may be specifically mentioned.
- 8. Whether the company has entered into contracts of rent in respect of buildings/factories/ distributing centres, etc.? If so, the names of the persons with whom such contracts have been entered into may be mentioned. If not, what arrangements in these matters have been made may be specified.
- 9. Your company has been shown as a company belonging to Tata Group in the Report of the Industrial Licensing Policy Enquiry Committee. Under the new Licensing Policy, this was accepted by Government. Whether the sentations in this regard during the stipulated period? If so, with what results? (furnish copies). If not, why not?
- 10. Copy of the Director's Report and Profit and Loss Account and Balance Sheets for the latest year and preceding 3 years may be sent (if not already sent to the Commission).
- 11. Please furnish a copy of the Memorandum and Articles of Association (as amended upto-date) of your company.

The above information is required under Section 12 of the M.R.T.P. Act, 1969 and may please definitely be sent by the date mentioned earlier.

Thanking you,

- 1. M/s. Ahmedabad Advance Mills Ltd., Bombay House, Bruce Street, Fort, Bombay.
- 2. M/s. Andhra Valley Power Supply Co., Bombay House, 24, Bruce Street, Fort., Bombay.
- 3. Associated Building Co. Ltd., Bombay House, Bruce Street, Fort, Bombay.
- 4. M/s. Auto Accessories (India) Ltd. Forbes Building Home Street, Bombay.
- 5. M/s. Belapur Refractories Ltd., Belapahar, Samblapur, Samblapur.
- 6. M/s. Central India Spg. & Wvg. & Mfg. Co. Ltd., Bombay House, Bruce Street, Fort, Bombay.
- M/s. Commercial & Industrial Exports Ltd., Bombay House, Bruce Street, Fort, Bombay-1.
- 8. M/s. Eagle Rolling Mills Ltd., 7-A, Chartered Bank Bldg., Calcutta.
- 9. M/s. Forbes, Forbes Campbell & Co. Ltd., Forbes Building, Home Street, Fort, Bombay.

- 10. M/s. Cyanides & Pigments Ltd., P-40, Princep Street, Calcutta-13.
- 11. M/s. Gokak Mills Ltd., Forbes Building, Home Street, Fort, Bombay.
- 12. M/s. General Radio & Appliance Co. Ltd., 8, New Queen's Road, Bombay.
- 13. M/s. Indian Standard Metal Co. Ltd., Chinchpokli Gross Lane, Bombay-27.
- 14. M/s. Godlass Nerolac Paints P. Ltd. Forbes Building Home Street, Fort, . Bombay.
- 15. M/s. Indian Tube Co. Ltd., 41, Chowringhee Road, Calcutta-16.
- 16. M/s. Indian Hotels Co. Ltd., Bombay House, Fort, Bombay.
- 17. M/s. Industrial Perfumes Ltd., Army & Navy Building, Mahatma Gandhi Road, Bombay-1.
- 18. M/s. Indian Vegetable Products Ltd., Forbes Building, Home Street, Fort, Bombay.
- 19. M/s. Investa Industrial Corporation, Ewart House, Bruce Street, Fort, Bombay.
- 20. M/s. International Fisheries Ltd., 169/170, B.P.T. Buildings, Sasson Dock, Colaba, Bombay.
- 21. M/s. Jayabharat Insurance Co. Ltd., French Bank Building, Homji Street, Fort, Bombay,
- 22. M/s. Investment Corpn. of India Ltd., Ewart House, 20 Bruce St., Fort, Bombay.
- 23. M/s. Lawkin Ltd., 16, Nornimen Circle, Fort, Bombay.
- 24. M/s. Lakme Ltd., Bombay House, Bruce Fort, Bombay.
- 25. M/s. New India Assurance Co. Ltd., New India Assurance Building, Mahatma Gandhi Road, Fort, Bombay.
- 26. M/s. National Ekcco Radio Engg. Co. Ltd., Eswart House, Bruce Street, Fort, Bombay.
- 27. M/s. Sasoon J. David & Co. Ltd., Eswart House, Bruce Street, Fort, Bombay.
- 28. M/s. Scottish India Machine Tools Ltd., Graham Road, Ballard State, Bombay.
- 29. M/s. Sepulchre Bros. (India) Ltd., Taj Bldg., 210, Borby Road, Bombay.
- 30. M/s. South India Insurance Co., Jehangir Buldg., 133, Mahatma Gandhi Road, Fort, Bombay.
- 31. M/s. Swadeshi Mills Co. Ltd., Bombay House, Bruce Street, Fort, Bombay.
- 32. M/s. Tata Aircraft Ltd., Bombay House, Bruce Street, Fort, Bombay.
- 33. M/s. Tata Chemicals Ltd., Bombay House, Bruce Street, Bombay.
- 34. M/s. Tata Engg. & Locomotive Co. Ltd., Bombay House, Bruce Street, Fort, Bombay.
- 35. M/s. Tata Finlay Ltd., Bombay House, 24, Bruce Street, Fort, Bombay.
- 36. M/s. Tata Fison Industries, 21, Ravelh Street, Bombay-1.
- 37. M/s. Tata Hydro-Electric Agencies Ltd., Bombay House, 24, Bruce Street, Fort, Bombay.
- 38. M/s. Tata Hydro-electric Power Supply Co. Ltd., Bombay-House, 24, Bruce St., ort, Bombay.
- 39. M/s. Tata Industries Pvt. Ltd., Bombay House, Bruce Street, Bombay.
- 40. M/s. Tata Iron & Steel Co., Bombay House, Bruce Street, Fort, Bombay.
- 41. M/s. Tata Johson Ltd., 10, Princep Street, Calcutta-13.
- 42. M/s. Tata Merlin & Gerin Rajmehal, 84, Veer Nariman Road, Bombay (BR).
- 43. M/s. Tata Mills Ltd., Bombay House, 24, Bruce Street, Fort, Bombay.
- 44. M/s. Tata Oil Mills Co. Ltd., Bombay House, 24, Bruce Street, Fort, Bombay.
- 45. M/s. Tata Power Co. Ltd., Bombay House, 24, Bruce St., Fort, Bombay.
- 46. M/s. Tata Robins-Fraser Ltd., 11, Station Road, Burma Mines, Jamshedpur.-7.

- 47. M/s. Tata Press Ltd., (Foremerly Commercial Printing Press) 144, Veer Sawarkar Marg, Bombay-25.
- 48. M/s. Tata S & L Sales Ltd., 43, Chowringhee Road, Calcutta-16.
- 49. M/s. Tata Services Ltd., Army & Navy Buildings, 148, Mahatma Gandhi Road, Fort' Bombay.
- 50. M/s. Tata Sons Pvt. Ltd., Bombay House, Bruce Street, Fort, Bombay.
- 51. M/s. Unval Industries Ltd., Ewart House, Bruce Street, Bombay.
- 52. M/s. Vac-U-Mation Ltd., Belmont, Coonoor, Nilgiris District, Tamil Nadu.
- 53. M/s. Voltas Ltd., 19, Graham Road, Ballard Estate, Bombay-1.
- 54. M/s. Warrior (India) Ltd., Forbes Building, Home Street, Fort, Bombay.
- 55. M/s. West Bokaro Ltd., 43, Chowringhee Road, Calcutta-16.
- 56. M/s. Whiffens (India) Ltd., Ralli House, Ravelin St., Bombay-1.

Annexure VI A

Enquiry under Section 21 (3) (b) in the Case of M/s. TATA Engineering & Locomotive Co. Limited.

Report of the Director of Investigations

Thirteen companies mentioned in the ILPIC's report were selected for detailed scrutiny. Seven of these were the main manufacturing companies including the TELCO, the applicant. Out of the remaining six, two were Investment Companies, one was the erstwhile managing agent and the remaining three were Service Companies.

I have scrutinised some of the records of the above-mentioned thirteen companies during my six day's stay at Bombay in the last tour. The facts as they have emerged as a result of this study are submitted below for the consideration of the Commission:—

It may be mentioned here that the extracts from the records of the Tata Services, Tata Oil Mills Co. Ltd., and Ahmedabad Advance Mills Co. Ltd., could not be handed over by the companies to me due to lack of time and will be made available by them to Shri S. Jayaraman, A.D., who will be bringing the same to Delhi on 31-10-71 evening. In view of the urgency of the matter and the fact that the broad pattern is the same in all these companies, this report is being submitted even without those extracts which will be added on 1-11-71.

1. Prior to April 1970 M/s. Tata Industries P. Ltd., were serving as Managing Agents and Secretaries and Treasurers of the following companies:—

Managing Agents:

- (a) TISCO
- (b) TELCO
- (c) Tata Chemicals Ltd.
- (d) Tata Oil Mills Co. Ltd.
- (e) Swadeshi Mills Co. Ltd.
- (f) Tata Mills Ltd.

Secretaries and Treasurers:

- (a) Ahmedabad Advance Mills Ltd.
- (b) Indian Hotels Co. Ltd.

During the year 1970, M/s. Tata Industries P. Ltd. received Rs. 65,56,026 by way of Managing Agency and Secretaries and Treasurers' remuneration. M/s. Tata Sons Pvt. Ltd., were entitled 39-8 M of LJ&CA/ND/79

to a part of the managing agency and Secretaries & Treasurers' remuneration and received Rs. 25,61,194 in addition to the above sum of Rs. 65,56,026 received by Tata Industries P. Ltd.

- 2. The following are the subsidiaries of Tata Sons P. Ltd.:-
- (a) Tata Industries P. Ltd.
- (b) Tata Hydro Electric Agencies (formerly managing agents of Tata Electric Co.)
- (c) Sassoon J. David Co. Ltd.
- (d) Tata Aircraft Ltd.
- (e) Tata Internation A.G.
- (f) Tata A.G.
- 3. The main sources of income of Tata Sons P. Ltd., upto 31-12-1968 were Commission. Dividend on SHARES, Interest on Securities, Rents, Interest and other incomes. The Company set up a Division called "Tata Consultancy Services" in April, 1968. In August, 1969 this division acquired Computer Services and improved facilities and expanded its activities in the field of Electronic Data Processing. On 1-11-1968 a partnership firm was established between the Company and the Tata Electric Companies under the name and style of Tata Consulting Engineers for undertaking the business of Engineering Consultancy Services in all fields of Industrial activity. The company holds 50% interest in this partnership, the balance being held by the three Electric Companies.

A partnership known as Tata-DSMA was constituted in association with the three Electric Companies and Dilworth, Secord, Meagher & Associates India Ltd., for undertaking in and outside India, engineering consultancy and other associated services in the field of nuclear engineering, aeronautics and special purpose sophisticated equipment. The Company holds 26% interest in the partnership, the three Electric Companies 25% and the balance 49% is held by Dilworth, Secord, Meagher & Associates India Ltd.

- 4. A little before the abolition of the managing agency system, all the companies had considered in their Board meetings and then subsequently in their Extra-Ordinary General Meetings the alternative forms of management on the termination of managing agency system. In all these cases it was decided that the most suitable form of management would be Management by Vice-Chairman/Managing Director, assisted by whole-time Directors, wherever necessary. It is, however, very significant to note that persons who were serving as nominees of the former Managing Agents on the Board of Directors of the managed companies, were appointed as Managing Directors. Not only this, the Managing Agents were requested to make the services of such persons available to the company as Managing Directors. This is supported by the following extracts:—
 - (i) TISCO-Board's Minute dt. 18-12-69.

"Resolved further that the Managing Agents be requested that the services of Shri S. K. Nanavati who has had such a long and close association with the Company as the Officer of the Director of the Company be made available as the Managing Director of the Company from 3-4-1970."

"The Board further resolved that the Managing Agents be requested to make available the services of Shri R. S. Pande and P. H. Modi as whole-time directors of the company from 3-4-1970."

"The Managing Agents stated that on termination of the managing agency agreement, Mr. JRD Tata and Mr. S. Moolgaokar would cease to be Special Directors of the company and it was therefore proposed to appoint them as Director liable to retire by rotation with effect from 3-4-1970. A resolution to this effect would be moved at the proposed Extra-Ordinary General Meeting. Mr. JRD Tata would continue to be Chairman and Mr. S. Moolgaokar, Executive Vice-Chairman of the company."

(ii) Telco: Extra-Ordinary General Meeting dated 31-12-1969: "The Directors came to the conclusion that the most suitable form of management for the company would be the management by a Managing Director and three whole-time Directors. It was accordingly proposed to appoint Mr. S. Moolgaokar as the Managing Director and Vice-Chairman of the company and Mr. A. H. Tobaccowala as one

of the whole-time Directors, for a period of five years from 3-4-1970 and to request the Managing Agents to make available to the company the services of Mrs. Moolgaokar and Mr. Tobaccowala as Directors of the company, not liable to retire by rotation."

(iii) Tata Chemicals: Board's minute dt. 23-12-69:

"Resolved that the Managing Agents viz., M/s. Tata Industries P. Ltd. be requested that the services of their Director, Mr. D.S. Seth, who has a long and close association with the company, be made available to the company with effect from 1-4-1970, the date of termination of the present Managing Agents".

(iv) Indian Hotels: Board's minute dt. 1-4-1970;

"Since Mr. R.D. Choksi, who joined the Board of the company in July, 1965, has been actively associated with the management of the affairs of the company both as a Director of the company and as a Director of the Secretaries & Treasurers, who had appointed him as the Director-in-charge in January, 1968, it was considered to be in the interest of the company that the Board should continue to receive the benefit of his advice and guidance. It was therefore decided to appoint Shri R.D. Choksi as the Vice Chairman of the company for a period of five years with effect from 1-6-70 subject to the approval of the company in General Meeting and the Central Government."

(v) Svadeshi Mills: Board's minute dt. 27-10-69:

"The issue was discussed at length and the Directors resolved that the Managing Agents to be requested that the services of Mr. N.H. Tata, who has had such a long and close association with the company as the Director and Chairman of the Board, be made available as the Managing Director of the Company from 1-1-1970".

As mentioned earlier, the typed extracts in respect of Tata Oil Mills and Ahmedabad Advance Mills are still awaited, but the position in those two cases is not different.

I had while in Bombay written to Tata Industries P. Ltd., asking them to furnish the name of all their nominees, who were, prior to abolition of the system of managing agency, serving as Directors on the Boards of their erstwhile managed companies. This alongwith the information regarding the present Vice-Chairman/Managing Directors/whole-time Directors of the various companies, would enable us to further verify the fact that the Vice-Chairman/M.Ds of the erstwhile managed companies are the former nominees of the Managing Agents.

- 5. There has been no chance in the Chairman of the Board of Directors of the erstwhile managed companies after the abolition of the system of managing agency Shri. JRD Tata was the Chairman of Tata Sons P. Ltd., Tata Industries P. Ltd., TISCO, TELCO, Tata Chemicals, Tata Oil Mills and Indian Hotels Ltd., prior to the abolition of the system of managing agency and the continues to be the Chairman of these companies even now. Similarly, Mr. N.H. Tata was the Chairman of Ahmedabad Advance Mills, Svadeshi Mills, Tata Mills and the three Electric Companies, and continues to be so even now. It is pertinent to mention here that S/Shri JRD Tata and N.H. Tata were prior to April 1970 nominees of the Managing Agents on the Board of Directors of the managed companies.
- 6. Prior to the abolition of the system of managing agency, Tata Industries P. Ltd., were guaranteeing the bank loans and borrowings of their erstwhile managed companies without charging any commission. Tata Industries and Tata Sons are, even after abolition of the Managing Agency system, guaranteeing the loans and borrowings of all these companies (except TISCO) but charging guarantee commission. Tata Industries received Rs. 9,94,000/- during 1970 by way of guarantee commission. Similarly Tata Sons received Rs. 10,23,584/- by way of guarantee commission.

It is pertinent to note that the guarantee commission was received by these two companies only from Tata Companies, as would be seen from Annexure 'A'.

7. Details of receipts of Tata Consultancy Division, a division of Tata Services P. Ltd.—for the calendar year 1970 have been obtained and are given in Annexure A. A perusal of these figures would show that barring the management of computer services, in all other services, the receipts were mainly from Tata Companies. So far as the computer service is concerned, the Tata

Companies could not obviously provide enough work for the Computers and as such, the service was made available to Non-Tata Companies as well as Government departments. Details of receipt of Tata consulting Engineers and TATA-DSMA have been called for and are still awaited.

8. All the Tata Companies were availing of common services and facilities from Tata Services Limited prior to the abolition of managing agency system. This arrangement continues even after the abolition of the managing agency system. Brief details of the services rendered by Tata Services are given in Annexure B.

It may be mentioned here that Public Relations and Delhi Office were formerly under Tata Industries P. Ltd., and the same were transferred to Tata Services only on a subsequent date. I have enquired from Tata Services the date when these departments were taken over from Tata Industries. Their reply is still awaited. Tata Services were formerly managing the Tata Computer Centre, which was transferred to Tata Sons P. Ltd., with effect from 1-8-1969 with all its assets and liabilities as on that date. It would be observed from the Annexure B that Tata Services are concerned even with vital matters like Management Training, Staff recruitment, Personnel, Legal Counselling, Industrial Relations, New Development Section and Delhi Office, which does the entire liaison and representation work for all the companies. It is further pertinent to mention that Tata Services are working on 'no profit no loss' basis and the profit and Loss Account each year shows nil profit. Recoveries of all the expenses are made from various companies sometimes on scientific basis but in several cases purely on ad-hoc basis. There is ample material to prove that recoveries in several cases are purely ad-hoc. We may ask Tata services to furnish the basis of allocation of such expenses.

There is another important point which needs mention here. It appears that there was a Joint Committee of Management and staff at Bombay House, which increased the salary and dearness allowance of the staff in the Bombay House as would be seen from the following Board Minute of TISCO:—

"The Board were informed of the implementation of the recommendation of the Joint Committee of Management and Staff at Bombay House to increase the basic salaries and dearness allowance for the Head Office Staff at Bombay in the categories of junior officers and below with effect from Ist Sept., 1970. The Board noted that the result would be an increase in expenditure to the extent of Rs. 1,20,000/- per annum".

We may enquire from TISCO the constitution and the functions of the Joint Committee of Management and Staff at Bombay House as this would show that even after abolition of the Managing Agency system, the personnel policies of the Tata Companies were commonly controlled.

- 9. Tata Exports Ltd. were making exports on their own account as well as were rendering export services to various companies. According to the information furnished by the company, the total receipts during 1970 on account of export services rendered came to Rs. 3,89,175/-. On an analysis of the details it appears that the receipts from Non-Tata Companies came to only Rs. 26,129/-. Thus it would appear that the primary function of Tata Exports Ltd. was to cater to the Tata Companies. This arrangement, which was in force prior to the abolition of managing agency system, has continued even thereafter.
- 10. Tata Inc. New York and Tata Ltd., London, were/are the common purchasing agents for imported materials of the Tata Companies. Details of their receipts which would show the extent of business done by them for Tata Companies as well as for Non-Tata Companies are still awaited. On the basis of the scrutiny of the minutes of the Board of Directors of the various companies, it, however, appears that Tata Inc. New York were being paid retainer by Tata Companies and they had in July, 1971 obtained clearance from the RBI Bombay for payment of additional retainer of \$1,02,500/-. for 1970-71 to enable it to meet the revenue deficits for this year. TISCO contributed out of this \$20,000/- as would be seen from the following extracts:—
 - "The Board were informed that the Reserve Bank of India, Bombay, had, as in the previous three years, approved of payment by Tata Companies of an additional retainer of \$1,02,500/- to Tata Inc., New York, for the year 1971-72 to meet its estimated revenue deficit for this year. It was proposed that of this amount, the Company should contribute to the same extent as in the last three years viz., \$20,000/-.
 - The Board approved and RESOLVED that Tata Inc. New York, be paid an additional retainer of \$20,000/- for the year April, 1971 to March, 1972".

From the above it would appear that a combined application was made to the RBI. We may write to TISCO asking them to give a copy of the application which was made to the RBI and the RBI's letter approving the payment of the additional retainer. We may also enquire the reasons for meeting such deficits of Tata & Tata Inc. New York.

11. Prior to the abolition of the managing agency system, Tata Industries were having a Delhi Office which was assisting the Tata Companies in Liaison work with the Government Offices, railway authorities and manufacturers in Northern India. Shri S.A. Savawala, Resident Director of Tata Industries was located in Delhi. Shri V. Vaidyanathan was the Chief Executive. The other important officials were Mr. E.S. Awasti and R. Dandapani. The various Tata Companies were authorising Shri Sabawala and these officers to represent the companies before the Government authorities and sign documents and perform other acts on behalf of the Company in New Delhi. The nature of such authorisations would be seen from TISCO's Board minuted dated 14-5-70 (Ann.C). Shri Sabawala is continuing as a Director of Tata Industries, although the services of other officers working in Delhi Office have been taken over by Tata Services from some date, which has been ascertained from them.

On a perusal of the various correspondence files of the companies regarding their new/expansion projects, I find that on all Delhi matters the companies were sending telex/letters to Shri Sabavala and Shri Vaidyanathan for dealing with various Govt. departments. It would thus appear that even after the abolition of the managing agency system, one of the Directors of Tata Industries P. Ltd., continues to perform important functions on behalf of the various companies.

So far as Shri Vaidyanathan and other officers of Tata Companies are concerned, they also continue to perform the same duties which they were performing prior to the abolition of system of managing agency except that from a subsequent date their services have been transferrred from Tata Industries to Tata Services. It may be that Tata Services have also started paying some salary to Shri Sabavala. I propose to write to Tata Services enquiring about the correct position.

- 12. So far as the Tata Exhibition is concerned, I have scrutinised the Exhibition files of Tata Services who are supposed to have organised the Exhibition and of the various important companies which participated in the exhibition. I have not been able to locate any circular letter which was sent out by Tata Services to the various companies asking them to participate in the exhibition. There is similarly no letter from the companies to Tata Services intimating their willingness to participate in the exhibition. The exhibition files contain correspondence only after the decision by Tata Services to organise the exhibition and by other companies to participate in such exhibition had been taken verbally. The various companies have stated that the decision to organise the exhibition as well as the subsequent decision for participation was taken either by Shri JRD Tata singly or jointly with some Directors after some verbal discussions. At this stage we can only ask Tata Services by means of a letter to confirm that no circular letter was sent asking the various companies to participate in the exhibition and there are no letters from the various companies indicating their consent for participation.
- 13. On a scrutiny of the records of the companies I have been able to pick out examples which indicate clear nexus between the various companies belonging to the Tata Group and further indicate that decisions for these companies were being taken as a whole. Such instances excepting for Tata Oil Mills Co. Ltd., and Ahmedabad Advance Mills for which the typed material is still awaited, are given in Annexure D. There appears to be in existence a Tata Director's Co-ordinating Committee. I have made enquiries about its constitution and Board functions.
- 14. Ascrutiny of the company's records has further revealed some matters where the decisions were controlled or were primarily left to S/Shri JRD Tata, and S. Moolgaokar. Such instances except for Ahmedabad Advance Mills and TOMCO (for which typed material is still awaited) are given in Annexure E.
- 15. So far as the foreign tour of Shri JRD Tata on behalf of TISCO is concerned, we may ask TISCO to intimate the purpose of the foreign tour and the actual work done by Shri Tata during the tour. We have made a similar enquiry from TELCO regarding the three foreign tours of Shri Tata.

16. So far as the question as to who took the decisions or carried out the important negotiations in respect of new projects/expansions is concerned, the following facts have been collected:—

(i) Indian Hotels Ltd.

(a) Intercontinental Hotel Project:

Mr. A.B. Billimoria's letter dt. 13-7-70 to Special Secretary, E.A.D.

(b) Colley Funds

Correspondence between Shri N.R. Mody of Tata Inc. New York and Shri R.D. Choksi.

Note dt. 27-1-70 on Cooley Fund.

Correspondence between Mr. J.B. Fates and Shri J.R.D. Tata on the question of 3% fee.

(ii) Tata Chemicals:

(a) Fertilizer Project:

Correspondence mainly by Mr. K.S. Hinge Director dated 1-7-69.

Letter by Shri D.S. Seth dt. 21-11-70 to Dr. Triguna Sen.

Letter dt. 22-5-69 from Shri D.S. Seth to Shri B. Mukherji, Secretary.

(b) Soda Ash Project:

Letter from Shri D.S. Seth to Shri R. Prasad, Secretary, dt. 5-3-71.

(Notes regarding TISCO, TELCO, TOMCO, Ahmedabad Advance Mills will be added on receipt of my papers from Bombay).

(c) Argentine Project:

Correspondence mainly by Shri D.S. Seth M.D. & Sabaval. Shri J.R.D. Tata's letter dated 17-4-70 to Sh. B.R. Bhagat, Shri J.R.D. Tata's letter dated 2-5-70 to Sh. B.K. Sanyal Ambassador Argentine. Shri JRD Tata's letter dated 4-8-70 to President Acendar Industries Arzenta de Aceron Burneous Aires. Some discussions by J.R.D. at New York and trip to Argentine for discussion some reports submitted to J.R.D. regarding Argentine Project.

It may, however, be mentioned that the scrutiny has revealed that mainly the correspondence is being carried on by the M.D./wholetime directors and it is only on matters of great importance that letters have been written by Shri J.R.D. Tata as Chairman of the Company.

- 17. A statement showing the total voting strength and the proxies received is placed at Ann. F. It may be mentioned here that the total voting strength includes the voting strength of the Public Financial Institutions like LIC., UTI., and Banks, who were neither represented in the meeting nor granted any proxies. As a matter of fact this voting strength can be excluded for finding out the effective voting strength.
- 18. M-II had in his minute dt. 19-10-71 indicated certain lines of enquiry. I may mention here that I had already initiated enquiries regarding the nature of receipts by the Service Organisations and what percentage receipts from Non-Tata Companies constituted. The results are given in the form of Annexure A. Information regarding Shii JRD Tata's strips abroad has been called from TELCO and would be available on 1-11-71. TELCO were also asked to indicate as to how the Tata holding in TELCO was 23% as on 18-8-70 and as to how it is changed since then and their reply will be available on 1-11-71.

So far as the propaganda expenses and contribution for Bangla Desh are concerned, all possible instances have been collected and they appear in Annexure D.

A statement (FI-G) has been prepared showing the names of the Directors for these important Tata Companies, which would show as to who are the common Directors. So far as the contribution of the key directors is concerned, the same has been discussed in my notes above.

Chairman and Members of the Commission may kindly see the above note (copies of which are being circulated). I personally think that an attempt can be made to establish inter connection either under section 2(g)(iii)(d) of the Act, by treating Tata Industries as the company which is exercising control over the other companies or under Sec. 2(g) (vi) by considering the undertakings as controlled by the same group of persons viz., S/S JRD Tata and NH Tata.

(R.D. SAXENA)

ANNEXURE 'A'

Tata Industries (P) Ltd.	
	Rs.
Total Guarantee Commission received during 1970	. 9,94,827
Receipts from Non-Tata Companies	Nil
Tata Sons (P) Ltd.	
Guarantee Commission:	
Total receipts during 1970	. 10,23,584
Receipts from Non-Tata Companies	Nil
Tata Consultancy Services:	
(a) Management and Computer Services:	•
Total receipts during 1970	. 60,14,351
Receipts from Non-Tata Companies including Rs. 17,16,992 from Centra of India.	al Bank 34,62,410
(b) Financial Consultancy Services:	
Total receipts during 1970	. 2,96,500
Receipts from Non-Tata Companies	Nil
(c) Tata Economic Consultancy Services:	
Total receipts during 1970	. 1,82,700
Receipts from Non-Tata Companies	82,700
(d) Guarantee Commission:	
Total receipts during 1970	10,23,584
Receipts from Non-Tata Companies	. Nil
Tata Exports	
Total receipts during 1970	. 3,89,175
Receipts from Non-Tata Companies	26,179

Tata Inc. New York

Tata Ltd. London

Annexure 'B'

Brief details of services rendered by Tata Services

The following services/facilities are being provided directly on a non-profit non-loss basis:—

Personnel

Staff Recruitment

Management Training

Public Relations

Legal Counselling

Economic & Statistics

Medical and Health

Industrial Health

Housing for staff

Canteen and Retail Store for Staff

Industrial Relations and labour information

Internal Telephones, Telex and Teleprinter

Customs Procedures

Executive aviation transport

Microfilming and Photo-copying

Watch and Ward

Centralised Share Department

New Development Section

Staff Sports Club

Bungalow and Office at Delhi.



Annexure 'C'

Tata Iron and Steel Co. Ltd., Bombay House, 24, Bruce Street, Bombay-1

Extract from the Minutes of the meeting of the Board of Directors held on 14th May, 1970

Powers of Attorney to Mr. S.A. Sabavala, Mr. V. Vaidyanathan and Mr. P.S. Avasthi and Mr. R. Dandapani for representing the Company in New Delhi.

XVII (a) The Board approved of the grant of powers of Attorney, as per the drafts placed on the table, to (a) Mr. S.A. Sabavala, (b) Mr. V. Vaidyanathan and (c) Mr. P.S. Avasthi and Mr. R. Dandapani, authorising them to represent the Company before Government authorities and sign documents and perform other acts on behalf of the Company in New Delhi.

The Powers of Attorney to Mr. S.A. Sabavala and Mr. V. Vaidyanathan would contain the following main powers:—

- (i) To represent the Company before any Ministry/Government Department/Office/Officer in all matters concerning the business of the Company and to sign for and in the name of the Company any communication representation or application to be submitted to any Government Department/Officer.
- (ii) To claim and revive all refunds of taxes, rebates or drawbacks from the Government, Customs, Municipality or local bodies and to give proper and valid discharge and receipts on behalf of the Company for the same.

- (iii) To sign in the name and on behalf of the Company all applications for import licences and to agree to and accept such terms and conditions as may be prescribed by the Chief Controller of Imports & Exports, and to comply with, perform and observe the terms and conditions.
- (iv) To apply for registration, recognition, licence and authorisation of any State Government under any law of the Central and/or State Governments or any rule by-law notification order or press note of the Central or State Governments.
- (v) To take on lease, hire, rent any immovable or movable properties required for the purpose of business of the Company for a period not exceeding three years and to execute the documents necessary for the purpose.
- (vi) To file suits, representations, etc. and to defend suits on behalf of the Company.
- (vii) To endorse Government promissory notes in favour of relevant Central and State Government authorities.
- (viii) To sign or subscribe in relation to and for the purpose of the business and affairs of the Company all Customs passes, Import and Export Manifestos, Certificates of Origin, Security Bonds, Guarantees, indemnities and all declarations and documents of every kind as may be necessary for the declaration and passing of any goods, materials, plant, machinery, minerals, or mineral substances at any Customs House in India.

The Power of Attorney to Mr. P.S. Avasthi and Mr. R. Dandapani would contain the following main powers in addition to the powers (i), (ii) & (iii) set out above:—

- (i) To accept and endorse bills of lading, railway receipts and other documents in respect of goods despatches or received by the Company.
- (ii) To sign and execute on behalf of the Company.
 - (a) indemnity bonds for clearance of goods,
 - (b) contracts necessary for the sale in India or elsewhere of goods manufacture or distribute by the Company,
 - (c) affidavits with Government or other authorities in connection with the business of the Company and file the same.
- (iii) To sign all correspondence in the ordinary course of business of the Company.
- (iv) To sign agreements and all other documents and papers required to be signed in the course of business of the Company.
- (v) To act generally as Attorney or Agent of the Company in relation to the Company's business or affairs.

RESOLVED that Powers of Attorney, as per the drafts placed on the table, be granted to Mr. Sharokh Ardeshir Sabavala, Resident Director, Tata Industries Private Limited at New Delhi, Mr. Vishwanatha Vaidyanathan, and Mr. Prem Shanker Avasthi and Mr. Ramanathan Dandapani, and that these be executed under the Common Seal of the Company in accordance with Articles of Association of the Company.

True Copy

THE TATA IRON AND STEEL COMPANY LIMITED,

(Sd/-)

(Mrs. K.R. JAVERI)

Secretary

Annexure 'D'

Tata Exports Limited

Minutes of the Board meeting held on 7-4-1969

Investment in the shares of Tata Engg. and Locomotive Co. Ltd.

- 21. The Board was informed that the Company proposes to deposit, subject to the approval of the Central Government, a sum not exceeding Rs. 103.34 lakhs in fixed deposits for varying periods upto 40 months, with Tata Engineering & Locomotive Co., Ltd. This amount when considered with the other deposits accepted from the public by Tata Engg. & Locomotive Co., Ltd., may exceed the permissible maximum limit of deposits from the public which it can accept under the provisions of the Companies Deposit Rules. However, as there is no maximum limit applicable in respect of deposits accepted from the shareholders and as the deposit of funds of this Company with the Tata Engg. & Locomotive Co., Ltd., is in the interest of this Company, it was decided to become a shareholder of that Company and the Board passed the following Resolution:
 - "RESOLVED that pursuant to the provision of Section 292(1)(d) of the Companies Act, 1956, the Secretary of the Company be and is hereby authorised to acquire in the name of Tata Exports Limited five equity shares of Tata Engg. & Locomotive Co., Ltd., at a cost not exceeding Rs. 1,250/- in the aggregate."
- Mr. S. Moolgaokar, being a Director of Tata Engg. & Locomotive Co. Ltd., did not participate in the discussions nor vote on the Resolution.

Board meeting held on 4-7-1969

Management's Report

15. The Board was informed that Tata AG had set up a cell in the Office of Tata Incorported, New York, for the purpose of organising the sale of Indian Products in the American Market, Mr. F.S. Bamji, who till recently, was the Manager of our Calcutta Office has been seconded by TISCO to take charge of this cell.

Board meeting on 21-2-1969

Management's Report

11. The Board noted that the export of Engineering Products was not very significant. The Board was informed that these products were manufactured by Companies outside the Tata Group and it was very difficult to obtain suitable supplies. The Board was informed that an interesting enquiry for supply of barages had been received from the U.S.A.

Tata Iron and Steel Co. Ltd.

Minutes of the Board meeting held on 18-11-70

Payment of increased remuneration to Tata Inc. for service rendered to Tata Companies:

VI(c): The Board were informed that the Reserve Bank of India, Bombay, had, as in the previous two years, approved of payment by Tata Companies of an additional retainer of \$102,500 to Tata Inc. New York, for the year 1970-71 to meet its estimated revenue deficit in this year. It was proposed that the company should share in this additional amount to the same extent as in the last two years viz., \$20,000/-.

The Board approved and

RESOLVED THAT Tata inc. New York, be paid an additional retainer of \$20,000/- for the year ending 31st March, 1971.

Board Meeting held on 8-7-1971

Tata Relief Project (Bangla Desh)

It was reported to the Board that the Tata Companies and Associated Companies at Jamshed-pur had proposed that relief work for the Bangla Desh refugees should be directly undertaken by the Companies by taking up a camp in Bihar and providing the refugees with medical care, housing, clothing and other facilities. It was estimated that the expense on such a camp would be about Rs. 10 lacs. Out of this, it was proposed that Rs, 6 lakhs should be contributed by the Steel Company, Telco and ITC in the ratio of 45%, 40% and 15% respectively and the Board's approval was accordingly being sought to incurring an expenditure of Rs. 2.70 lakhs for this purpose.

Board Meeting on 8th July, 1971

Increased basic salaries and dearness allowance for Head Office Staff

The Board were informed of the implementation of the recommendation of the Joint Committee of Management and Staff at Bombay House to increase the basic salaries and dearness allowance for the Head Office Staff at Bombay in the categories of Junior officers and below with effect from 1st Sept. 1970. The Board noted that the result would be in increase in expenditures to the extent of Rs. 1,20,000/- per annum.

Tata Chemicals Ltd.

Board Meeting held on 23-6-70

Sanction for payment of Retainer to Tata Inc. NY.

At the Board Meeting held in May 1969, the Directors had approved of the payment of a total retainer of \$12,200/- to Tata Inc. New York, for the year 1969/70.

For the year 1970/71, the Reserve Bank, in response to representations, accorded their sanction to Tata Companies for the payment of a retainer of \$94,700/- and an additional retainer of 1,02,500/- to Tata Inc., for services rendered to the Tata Companies in India. Of this total retainer of \$1,97,200/- this Company's share on a pro-rata basis worked out to \$12,200, which was the same as last year.

The Directors approved of the payment of a total retainer of \$12,200/- to Tata Inc. New York, for the year 1970-71.

Board Meeting held on 23-6-70

The Assocham Golden Jubilee Fund for the Eyes of India

The Associated Chambers of Commerce & Industry of India had approached Tata Companies for their support for the special Golden Jubilee Fund to promote the EYES of INDIA campaign of the Royal Commonwealth Society for the Blind.

In response to this appeal, Tata Companies proposed to contribute a sum of Rs. 20,000/- of which the Company's pro-rata contribution worked out to Rs. 2,500/-

The Directors approved of Company making a contribution of Rs. 2,500/- to this Fund.

Board Meeting held on 10-8-1970

Sanction for Company's contribution to the Bharatiya Agro-Industries Foundation

It had therefore been decided to make an aggregate contribution of Rs. 1 lakh, spread over this year and 1971. In the first instance, the following contributions, aggregating to Rs. 50,000/-was proposed to be made, out of which this Company's pro-rata share would be Rs. 6,000/-

							Rs.
TISCO .					•		10,000
TELCO .							10,000
Tata Textiles							6,000
Tata Electric	Com	panies					6,000
TOMCO						•	6,000
Tata Chemica	ıls	•			•	.•	6,000
Voltas .	.•			•			6,000
						_	***
TOTAL		•	٠	•		•	50,000

Tata Chemicals Ltd.—Contd.

The Directors approved of Company's making a contribution of Rs. 6,000 for the current year to the Bharatiya Agro-Industries Foundation.

Board meeting held on 17-9-1970

Sanction for Company's Contribution to Gramswaraj Fund

An All India Committee for Gramswaraj Fund had been constituted to collect a substantial fund to be presented to Acharya Vinoba Bhave on his 75th Birthday. In response to this appeal Tata Companies contribution would be as follows:—

							Rs.
Electric Compa	nies		•				5,000
Tata Chemicals	3		,				5,000
Tomco .			•			. •	5,000
Voltas .	•			•		•	2,000
Swadeshi Mills				•		•	1,000
Tata Mills							1,000
Ahmedabad Ad	lvano	e	•	•	•	•	1,000
					_ E	- RE	20,000

The Directors approved of the Company contributing Rs. 5,000/- to the Gramswaraj Fund.

Board meeting held on 19-11-1970

Contribution by way of interest subsidy towards Gujarat Flood Relief

At the time of severe floods in Gujarat in 1968, a Committee known as Bombay Citizens Gujarat Flood Relief Committee, was constituted in Bombay with Mr. Arvind N. Mafatlal as the Chairman. This Committee prepared a scheme for Rupees one Crore interest free loan to rehabilitate those who had suffered during the floods. The Trade and Industry Associations of Gujarat agreed to subsidies interest on an amount of Rs. 40 lacs at the rate of 6% and the balance of Rs. 60 lacs was to be subsidised by Business House and Industrialists from Bombay. The Company's erstwhile Managing Agents had agreed in April 1969 to participate in the scheme. Subject to the approval of their Boards, Tata Companies had agreed, in response to a request from Mr. Arvind Mafatal to make an interest subsidy at the rate of 6% on Rs. 18 lacs for a period of 5 years out of the total amount of Rs. 1 crore, and the amount was allocated as under:—

	I	Name	of the	e Co.			Amount of loan on which int. may be subsidized	Amount of interest payable per year
							(Rs. in lacs)	Rs.
TISCO .		•	•	•			4	24,000
relco .							4	24,000
ATAKEM	•		. •				4	24,000
OMCO		•	•				2	12,000
OLTAS				•	•		2	12,000
EXTILES	•		•			•	1	6,000
ATA CONS	ULT	ING		•.	•		1	6,000
NGINEERI	IGS	•					-	1,08,000

Tata Chemicals Ltd-Contd.

Accordingly this Company would be subsidising interest for an amount of loan of Rs. 4 lacs and the amount of interest payable per year would be Rs. 24,000/-.

Board Meeting on 27-1-1971

Sanction for the Company's contribution to the Gujarat Flood Relief Fund

It has been recommended that Tata Companies might make an aggregate contribution of Rs. 5 lacs to the Tata Relief Committee to undertake the above mentioned relief programme, out of which this company's pro-rata share would be Rs. 2 lacks.

The Directors passed the following Resolution in approval:-

"RESOLVED that the Company do contribute a total sum of Rs. 2 lacs to the Tata Relief Committee for undertaking the Relief Programme in the Broach area as per details submitted to the Board".

Sanction for Company's Contribution to the family Planning Foundation

In order to get the project off the ground, the Governing Board of the Foundation had decided to raise about Rs. 50 lacs from the Indian business and industrial community. The Ford Foundation had agreed to make an initial grant equivalent to one-third of the amount raised by Indian business and industry subject to a maximum of Rs. 15 lacs.

In view of the vital importance of population control to Indian Industry it was felt that TATAS should give a lead in the drive for the collection of funds, and the total Tata contribution would be of the order of Rs. 10 lacs, spread over a period of two years, of which this Company's pro-rata share would be Rs. 0.75 lacs.

"RESOLVED that the Company do contribute a sum of Rs. 75,000 spread over a period of two years to the Family Planning Foundation".

Board meeting on 28-4-1971

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Sanction for the Company's Contribution to The Bangla Desh Assistance Committee

An All-India Committee called "Bangla Desh Assistance Committee" had been constituted to organise relief for the victims of the present conflict in East Bengal, of which Mr. M.C. Setalvad was the Chairman, and Miss Padmaja Naidu was the Vice Chairman. The question of Tata's contribution to the Committee had been considered and it had been agreed that initially Tata Contribution should be of the order of Rs. 2 lacs, out of which Tata Trust would contribute Rs. 1 lac and the Tata Companies the balance.

As the Committee in urgent need of funds to render immediate assistance to the victims of the conflict in East Bengal, it had been suggested that the Tata's Companies' contribution should be made available to the Committee immediately.

Out of the total contribution of Rs. 1 lac from Tata Companies the Company's pro-rata share would be Rs. 11,000/- which the Directors approved and sanctioned.

Board meeting on 28-5-1971

Sanction for Company's Contribution to construct a traffic Island in New Delhi

Tatas had considered a proposal to embellish with flowering plants and a fountain one of the traffic islands in New Delhi. It had been agreed that a well situated traffic island should be take up by Tata Companies for an initial period of three years, for which a site had been selected near the American Embassy, New Delhi.

A total amount of Rs. 87,000/- had been paid by Tata Service to the New Delhi Municipal Committee to cover the cost of the lay-out and the construction of the fountain and the cost of a large modern sculpture, which was to be placed prominently on the traffic island. The recurring maintenance cost of this island was estimated at about Rs. 20,000/- per annum.

It had been agreed that initial non-recurring cost of Rs. 87,000/- should be shared amongst the Tata Companies, out of which this Company's pro-rata share would be Rs. 10,000/-. Likewise the annual recurring cost of maintaining the fountain estimated at Rs. 20,000/- would also be shared pro-rata by various Tata Companies.

Tata Industries Private Limited

Board Meeting on 21-1-1970

Terms and conditions of service in Bombay House

Mr. R. D. Choksi's note was discussed. It was agreed to recommend to Tata Companies the payment, with effect from 1-1-1970, of a further ad hoc D.A. of Rs. 30/- p.m. upto a basic salary of Rs. 150/- in addition to the existing ad hoc of Rs. 15/- payable at present, rising progressively to a maximum further D.A. of Rs. 75/- on a basic salary of Rs. 600, in addition to the existing ad hoc D.A. of Rs. 60/- the same additional ad hoc allowance of Rs. 75 being payable on basic salaries upto Rs. 1,999/-. With the payment of the proposed additional ad hoc D.A., the ceiling of D.A. which was now Rs. 510/- would stand increased to Rs. 585/-.

Mr. R.D. Choksi also placed before the Board the question of the grant of double D.A. when employees take leave with double pay. The present practice was to pay in such case double basic salary and only single D.A. The proposal was discussed and it was decided unanimously to recommend to *Tata Companies* that when employees proceed on leave with double salary they should be paid double basic salary and double D.A.

Board Meeting on 11-2-1970

Directors qualification's shares

Mr. A.B. Bilimoria reported that Tata Sons had transferred some shares from their holding in some of the Tata Companies to the joint names of themselves and some Directors who were Tata Industries nominees on the Boards of these companies in order to unable such nominated directors to hold the qualification shares. With the abolition of the managing agencies system it was for consideration whether Tata sons could continue to hold these qualification Shares Jointly with such Directors. It was decided that Tata Companies' should at their next annual general meetings amend their articles of associations to provide that the Managing Directors and full Directors need not hold any qualification shares and that the value of the qualification shares for other Directors should except in Tisco and Telco, be reduced to a nominal value of Rs. 2,000/-.

Board Meeting on 4-3-1970

Appointment of Managing Directors and their remuneration

Mr. N.A. Palkhivala reported that application had already been made by several Tata Companies for the appointment of Managing Directors and whole time Directors as approved by their respective shareholders. It was for consideration whether separate applications should be made now asking for a suitable minimum remuneration for the Managing Director in any year in which the companies profit were not adequate to pay the full remuneration to him on the basis approved by the shareholders. It was agreed that such applications should be made at this stage although under the law it was opened to the companies to make such applications in the year in which the profits were not adequate.

Remuneration of Directors

Mr. N.A. Palkhivala reported that in the proposals approved by the Shareholders of various Tata's Companies it was provided that a sum not exceeding 1% per annum of the net profits of the company calculated in accordance with the provisions of the Company Act, we paid to and distributed amongst the Directors of the Company or sum or any of them (other than the Managing Director, The Joint Managing Director if any, and the whole-time Director or Directors, if any) in such proportions as may be directed by the Board. Mr. Palkhivala stated that a query had been received

from Government by some companies asking as to what specific or special services such Directors would render in respect of which the proposed commission was to be paid. The subject was discussed and it was agreed that a suitable, reply should be sent to Government by the Companies concerned, under the advice of Mr. Palkhivala, setting out the reasons for and the grounds on which the Commission was proposed to be paid to such Directors.

Overseas Projects

Mr. R.D. Choksi reported that in accordance with the directive of the Board Mr. R.R. Vicaji would proceed to Narobi by the end of March 1970 for a period of one year in the first instance. The total cost of the deputation of Mr. Vicaji overseas including his living expenses, Office establishment etc. was estimated at Rs. 3.20 lakhs. Since Mr. Vicaji will be acting on behalf of the Companies in the Tata Group the total expenditure would be shared amongst the Tata companies. Mr. Vicaji would submit his first report within the first six months.

Board Meeting held on 25-3-1970

Mr. R.N. Tata's Report on his visit to Australia

Mr. R.N. Tata's Report was discussed at length. Tata's participation with Dalgetys in Australia for the establishment of a joint venture was approved in principle. The equity participation in the new company should if possible be 50:50. The capital participation would be through Tata International A.G. Mr. R.N. Tata was authorised to convey this decision to Dalgetys.

The Board also approved in principle Tata's association with Hamersley Iron Pty. Ltd. subject to further investigation regarding economic feasibility of the Project.

While Tata's participation in a hotel project in Australia was not favoured, a hotel project in Fiji was considered worth exploring.

The following Committee was appointed to examine in detail various proposals for a Tata association in Australian and South East Asian projects and to frame concrete proposals for the consideration of the Board.

Mr. S. Moolgaokar

Mr. A.B. Bilimoria

Mr. F.A. Mehta

Mr. R.N. Tata.

Board Meeting on 1-4-1970

Monthly Progress Report No. 1 on Joint ventures foreign Operations-Voltas Ltd.

Mr. R.F.S. Talyarkhan's note was discussed. The consensus of opinion was that Nigeria offered the best possibilities for a profitable venture in Africa and the Board decided that Mr. R.R. Vicaji be instructed to visit Nigeria at the earliest opportunity with a view to exploring the possibilities of Tatas setting up joint ventures there.

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The Indian Hotels Limited

Board Meeting held on 25-6-1971

The Board sanctioned the payment of Rs. 3,000/- to Tata Services Limited towards the company's share of the initial non-recurring cost of Rs. 87,000/- for embellishing with flowering plants and a fountain one of the traffic islands in New Delhi that was allotted to the Tata Companies for and initial period of three years. The Board also noted that the recurring cost towards maintenance of this traffic island would be about Rs. 20,000 per annum which would be shared by the Tata Companies in the same proportion in which the initial expenditure has been shared.

The Svadeshi Mills Co. Ltd.

Donation to the Economic Research Centre, New Delhi

True Copy of the Board Circular dt. 20-2-1970.

In November 1967, the then Managing Agents had recommended that Tata Companies should make an aggregate contribution of Rs. 25,000 per year, for two years, to the Centre, the

of our company being suggested at Rs. 1,000 per year. At the Board Meeting held on 12th December 1967, the Directors of the Company had sanctioned an aggregate donation of Rs. 2,000/- to the Centre to be paid in two equal annual instalments and the donations were made accordingly.

The Board of Tata Industries have recommended a further contribution of Rs. 15,000/- per year, for two years to the Centre from the Tata Group of Companies, the share of our company being suggested at Rs. 500 per year.

The Directors are requested to sanction an aggregate donation of Rs. 1,000 to the Economic Research Centre to be paid in two equal annual instalments, either directly or through Tata Industries Private Limited.

Donation to all India Management Association, New Delhi

True copy of the Board's circular dt. 2-4-1970

The All India Management Association, New Delhi, proposes to undertake a reasearch study for appraising the current image of the business community in the Indian Society at large.

The appeal was considered by the Board of M/s. Tata Industries P. Ltd. and it has been recommended that an aggregate contribution of Rs. 10,000 be made by the Tata Group of Companies to the All India Management Association, towards the cost of the research project.

It is suggested that the Company contribute Rs. 500 towards the cost of the project.

True copy of Board Circular dt. 5-5-1970

The Assocham Golden Jubilee Fund for the "EYES of India" Campaign

It has been recommended that an aggregate contribution of Rs. 20,000 be made by Tatas Companies to the ASSOCHAM for the purpose.

It is suggested that the Company contribute Rs. 750 towards laudable cause.

If the Directors agree, they are requested to indicate their approval by signing the Circular in full.

Circular letter No. 1537 dt. 26-6-1971

Bangla Desh Assistance Committee

As the Directors will have read from Press reports, an All India Committee called 'Bangla Desh Assistance Committee has been constituted to organise relief for the victims of the present conflict in East Bengal, of which Mr. M.C. Setalvad is the Chairman and Miss Padmaja Naidu is the Vice Chairman. Mr. S.A. Sabava, Director, Tata Industries P. Ltd. resident at New Delhi, is one of the Hon. Secretaries of this Committee.

At a meeting of the Tata Directors' Co-ordination Committee held during the month, the question of Tatas' contribution to the Bangla Desh Assistance Committee was discussed when it was felt that, initially, Tata's contribution may be of the order of Rs. 2 lakhs, of which Tata Trusts would contribute Rs. 1 lakh, leaving the balance of Rs. 1 lakh to be made up by the Tata Companies.

In view of the urgent requirements of the Committee for funds, it is recommended that the company contribute Rs. 4,000 to the 'Bangla Desh Assistance Committee'.

Board meeting held on 27-7-1971

Additional Retainer to Tata Inc. New York

The Board approved of the payment of the additional retainer of \$ 3,000 for the year 1971-72 to Tata Inc. New York, by the Tata Textiles Group, to be borne equitably as between the four Mill Companies of the Group.

Mr. N. H. Tata and Mr. J.R.D. Tata, being interested, did not participate in the discussion and did not vote.

Tata Engineering and Locomotive Co. Ltd.

Board meeting dated 2-8-1971

Contribution for the relief of the refugees from Bangla Desh

The Company had donated Rs. 50,000/- to the Bangla Desh Assistance Committee, New Delhi. It was now felt that instead of merely contributing money to other agencies, Tatas should take a direct hand in the relief operations. Accordingly, it had been decided to take up a camp at Kishanganj in Purnea District, Bihar, involving about 7,000 refugees and provide them immediately with medical care and articles like blankets, clothing, utensils, lanterns etc.

The project which would be called "Tata Refugees Relief Project (Bangla Desh), Jamshedpur" was estimated to cost Rs. 10 lakhs of which Rs. 6 lakhs were proposed to be spent by Tisco, Telco and ITC in the ratio of 45%, 40%, 15% respectively, the remaining Rs. 4 lacs being contributed by the other Tata Companies. The Company's share of the expenditure of Rs. 6 lakhs would be Rs. 2.40 lakhs. Appropriate care would be taken to ensure that the amount being contributed by the Company was well-spent and proper controls were kept over the expenditure.

The Board approved and Resolved that the contribution of Rs. 2.40 lacs towards the Tata Refugee Relief Project (Bangla Desh), Jamshedpur, be and is hereby approved.



Annexure 'E'

Tata Iron and Steel Company Limited

(Board Meeting held on 12-3-1970)

Delegation of powers by the Board:

- VI. The Board considered further the management set up when the office of the Managing Agents would terminate on 2nd April, 1970. The Board directed that a Committee consisting of the Chairman, Mr. J.R.D. Tata and the Vice-Chairman, Mr. S. Moolgaokar be appointed to:—
 - (a) allocate the duties and powers to be performed and exercised by the Managing Director and the other Executive Directors and to give directions to carry this into effect;
 - (b) supervise and control on behalf of the Board the exercise of such duties and powers by the Managing and Executive Directors.
 - (c) give directions in regard to the business and affairs of the Company not covered by the duties and authorities conferred on the Managing and Executive Directors as aforesaid, and
 - (d) generally, subject to further directions of the Board, exercise such other powers and duties as were previously exercised by the Managing Agents.

Board Meeting held on 2-4-1970

Travelling and other expenses of directors on visits abroad:

VII. The Managing Agents reported that the Company's share of the Chairman's travelling and other expenses on his visit to Europe and U.S.A, in January/February 1970 on the business of the Company and other Tata Companies amounted to Rs. 2,349/-

RESOLVED that the payment of Rs. 2,349/- to Tata Industries Private Limited, being the proportionate travelling expenses incurred by the Chairman on the business of the Company during his visit to Europe and U.S.A. in January/February 1970 be and is hereby sanctioned.

Board Meeting held on 16-6-1971

Authority to Mr. J.R.D. Tata, Mr. J.D. Choksi and Mr. S. Moolgaokar to operate bank accounts

VIII. The Board were informed that in terms of the Managing Agency Agreement, the Directors of the Managing Agents, Tata Industries Private Limited, were authorised to operate singly on the Company's cash credit and other accounts maintained with various banks. After the managing agency was terminated, this power lapsed and the accounts were being operated by the officers of the company who had been given powers of attorney. It was desirable that, in addition to the attorneys, the Chairman, Mr. J.R.D. Tata, and the Vice-Chairman, Mr. J.D. Choksi and Mr. S. Moolgaokar, should also be authorised to operate singly on the various bank accounts.

RESOLVED that Mr. J.R.D. Tata, Mr. J.D. Choksi and Mr. S. Moolgaokar, be and are hereby authorised to operate singly, on behalf of the Company, on the current, deposit, cash credit, overdraft and other accounts maintained by the Company with various banks and the said banks be and are hereby authorised to honour cheques drawn by them on behalf of the Company and to act on any instructions given by them relating to the said accounts or relating to the transactions of the Company.

Tata Exports Limited

Board Meeting held on 16-9-1971

Expenses on travelling for purposes of the Company's business in respect of the undernoted Directors:

(i) Mr. S. Moolgaokar

Tata Chemicals Limited

Board meeting on 31-1-1969

Tata Fertilizer Project

The Chairman apprised the Directors of the developments that had taken place since the last Board Meeting. He referred to the discussions that he had with the Prime Minister and, later on, with the Commerce Minister and expressed the hope that the Government would reach a final decision on the Project in another two months' time.

Board Meeting held on 1-4-1969

Fertilizer Project

The Chairman apprised to the Directors of the discussions that he had with Dr. Triguna Sen, the new Minister for Petroleum, Chemicals, Metals and Mines, who had indicated that his Ministry would do whatever they can to expedite a decision on the Tata Fertilizer Project. The Managing Agents understood that, at the instance of the Prime Minister the new incumbents in the Ministry were making a comprehensive study and marshalling the facts towards assisting the Prime Minister in taking a final decision on the Project.

Board Meeting on 21-11-1969

Propaganda Expenses for 1969-70

The Board sanctioned a sum of Rs. 25,000/- for propaganda expenses for the year 1969-70. The Board directed that this amount be held in a separate private account in the joint names of Mr. J.R.D. Tata, Mr. J.J. Bhaba and Mr. D.S. Seth and used, in Company's interest, at the discretion of the Chairman.

Board Meeting on 30-3-1970

Delegation of powers to the Chairman and the Managing Director on the termination of the Managing Agency

It was suggested that the approval of the Board be given to the delegation of the following powers to the Chairman of the Company Mr. J.R.D. Tata and the Managing Director, Mr. D.S. Seth such powers to be exercised by either of them singly:—

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"Same powers as those of M.D."

Board Meeting on 23-6-1970

"RESOLVED that subject to the approval of the Central Government and Reserve Bank of India, the Company do acquire shares in the proposed Tata Sudamerica S.A.C.I.F.—an Argentine juridical body in which Argentine private parties shall hold 51%.

FURTHER RESOLVED that the Chairman, Mr. J.R.D. Tata and the Managing Director, Mr. D.S. Seth, be and are hereby severally authorised to take further action necessary in this behalf, including execution of the necessary documents and nomination of Company's representatives on the Board of Tata Sudamerica S.A.C.I.F.

LASTLY RESOLVED that a General Power of Attorney from the Company be and is hereby authorised to be given to Mr. J.R.D. Tata and Mr. D.S. Seth, two Directors of the Company for Performing necessary acts, deeds and things as mentioned in the draft power, placed before the Meeting and that the Power be executed by the Company under its Seal and in accordance with the Company's Articles of Association."

Board Meeting on 17-9-1970

Argentine Soda Ash Project

At the Board Meeting held on 10-8-1970, a detailed status report on the Argentine Soda Ash Project was submitted and discussed by the Board at length. While approving the main proposals, the Directors appointed a Committee consisting of the Chairman and the Managing Director to take, for and on behalf of the Board, all actions necessary in connection with all matters pertaining to the Company's participation in the bid for the Argentine Soda Ash Project.

Tata Chemicals Ltd.(Contd.)

The Chairman and the Managing Director reported to the Board on the decisions that they took prior to and following the submission of the bid and sought the Board's ratification of these decisions.

Propaganda Expenses for 1970-71

The Board sanctioned a sum of Rs. 2 lacs for propaganda expense spread over the next three financial years with authority that as in the past, this amount be held in a separate private account in the joint names of Mr. J.R.D. Tata, Mr. J.J. Bhabha and Mr. D.S. Seth, and used, in the Company's interest, at the discretion of the Chairman.

Board Meeting on 27-1-1971

Revision of Prices:

The Board directed that the prices of the company's major products be reviewed and revised and authorised the Chairman and the Managing Director to suitably revise the prices of the company's major products keeping the Company's pricing policy and the consumer interests in mind.

In the context of the following, and taking an overall view, the Company had, with effect from 21st December, 1970, revised and refixed the prices of Soda Ash (light and dense), Sodium Bicarbonate, Vacuum Salt and Benzene Hexachloride, as per the table given below:—

					-				cs exclusive r levies, if	
				<		Ur	til 21-1	2-1970	Revised from 21-1	Effective 2-1970
Soda Ash Light .		•	•		(Sign	200	476	(Bagged)	467	(Bulk)
Medium	•				£0000		486		495	,,,
Dense .					0.4	79T.) Y	496	"	505	"
Soda Bicarb. Refined					7.78	9 44 9	595	• •	625	•
Vacuum Salt Undried					100	J 1979 F	130		165	
Dried					Batta	D. Sanda Cir.	143		180	
Bensene Hexachloride	Tec	h.			15 E E	see it it.	1467		1400	

The Board approved of the revision in the prices of the products mentioned above, with effect from 21-12-70.

Tata Industries

Board Meeting held on 9-4-1969

Propaganda Fund:

At the instance of Mr. J.D. Choksi, it was decided that the Tata Companies be requested to replenish the propaganda fund kept at the disposal of the Chairman.

Indian Hotels Co. Ltd.

Board Meeting held on 5-9-1969

With reference to Mr. J.B. Gate's letter 5-6-1969, to which Mr. J.R.D. Tata invited attention at the last meeting of the Board, the Director-in-charge reported that the Chairman had considered the pros and cons of collaboration and a letter to Mr. Gates had been commensurate compensatory advantages in relation to fees payable to IHC. With the Chairman's recommendations the letter would be sent, leaving it to Mr. Gates to determine whether to continue the collaboration or terminate it. The Board approved the course of action taken.

Board Meeting held on 21-1-1970

Progress of Application for a loan under Cooley funds

The DIC informed the Board of the conditions that USAID would impose for eligibility of Cooley funds. It was agreed that a set on the Board of the Indian Hotels Company Limited be provided for IHC. There was a general discussion on the points raised by USAID. It was agreed that the Chairman should clarify matters when he visited the United States and an aid memoire was to be prepared for him.

ANNEXURE 'F

STATEMENT SHOWING THE TOTAL VOTING STRENGTH AND THE PROXIES RECEIVED

Name of	Name of Company	Total voting strength	Proxica rec	ļ	Voting Total strength of (5+6)	%age of 7 to 2
			Tata From Trusts Others (Pub. Trustæ)	Total (3+4)	Tata Group not includ- ed in (4)	·
	1	2	3	4 5	2 9	8
TOMCO	(69, 8nV)	. •	•	2.78.718		:
	(A.G.M. on 11-8-70).		¢	2,48,511		
	(191)	8,14,727	Service Control	:	:	:
Ahmedabad	(0261)	1,07,000	19,149	49 73,787	73,787	%69
Advance	(191)	1,07,000	19,149	49 65,931	65,931	61
TISCO	(0261)	1,54,00,372	1,35,699	30,36,214	30,36,214	19.7%
	(1911)	1,54,00,372	1,35,699	22,68,651	22,68,651	14.8%
Tata Chemicals	(0261)	43,83,601	43,235	12,00,520	12,00,520	27.4%
*	(1971)	43,83,601	;	:		? :
TELCO		:	8,280*	6,78,142*		
·	(191)	. 16,34,928	7,968*	5,87,180	:	: :
Swadeshi Mills	(0261)	. 1,24,000	25,240 26,088		51,328	41.4%
	(191)	. 1,24,000	24,377	41,681	41,681	33.5%
Indian Hotels	(1971)	. 18,68,000	:	:	:	? ;
Investment Corpn.	(6961)	1,92,243	:	76,943**	12,252 89,195	46.4%
	(0.261)	1,92,243	:	65,043**	12,252 77,295	40.2%
Tata Power	(1971)	. 6,53,866	:	:	:	? :
Andhra Valley	(1971)	3,82,387	:	:	:	:
-						

*relating to ordinary shares only. () holding of Sassoon J. David & Co.

^{**}figures have not been given separately for public Trustee & others.

Annexure 'G'

	Tata Sons P. Ltd.	Tata Ind. P. Ltd.	Tata Service Ltd.
I. Board of Directors:—			· ·
Chairman Vice Do. Vice-Chairman	J.R.D. Tata	J.R.D. Tata*	J.J. Bhabha
Dy. Chairman		S. Moolgaokar	
Managing Director		N.H. Tata	
Executive		•	
Directors			
(Whole-time Directors			
Government Directors	d.		
Other Directors	N.H. Tata	D.R.D. Tata	R.D. Choksi
	J.D. Choksi	B. Sh. Saklatvala	N.K. Desai
	D.R.D. Tata	S.K. Nanavati	C.N. Gosalia
	S. Moolgaokar	R.S. Pande	F.A. Rabody
	R.D. Choksi	J.J. Bhabha	M.K. Unwala
	N.A. Palkivala	N.A. Palkivala	J.N. Dadabhoy
	D.S. Seth	N.R. Mody	R.D. Kulkarni
	A.B. Bilimoria	R.H. Mody	
	M.A. Wadudkhan	N.A. Wadud Khan	
		D.S. Seth	
		P.M. Agarwala	
		A.B. Bilimoria	
		A.H. Tobaccovala	
		K.M. Chinnappa	
		F.A. Mehta	
		S.A. Sabawal	
. Total voting strength .	•	22500	
of Tata Group .	• • •	. 22500	
of Tata Trusts .	• • •	• •	

^(*) Chairman & Special Director.

ANNEXURE 'G'-Contd.

	Tata Exports Ltd.	Tata Chemicals Ltd.	Tata Iron & Steel Co. Ltd.
I. Board of Directors:			
Chairman .	S. Moolgaokar	J.R.D. Tata	J.R.D. Tata
Vice Do.			J.D. Choski
Vice Chairman .		D.S. Seth	S.K. Nanawati
Dy. Chairman	•.	H.P. Shroff (1)	R.S. Pande
Managing Director		H.S. Hinge (2)	R.H. Mody
·		J.N. Dadabhoy (3)	
Executive Directors			
(Whole-time Directors)			
Govt. Directors	4	M.D. Rajpal	
Other Directors .	F.H. Kemple	Tulsidas	Dharmsoy
	SHEET STATES	Kila Chand	Mulraj Khatau
	B. Nehru	R.G. Saraiya	Neville N. Wadi
	M.A. Wadod Khan	Pratapsingh M	Sir F.I. Rahimtola
	F.J. Press	Vissanji	H.V.R. Iyengar
·	P.C. Cherian	Harshavadan	C.H. Bhabha
	R.S. Pande	Mangaldas	Keshub Mahindra
		C.H. Bhabha	
		Keshub Mahindra	Sir Jehangir Ghandy
		N.A.P. Palkhivala	R.N. Barooha Y.K. Khanna as on 31-8-71
II. Total voting strength		. 43,83,601	154,00,372
III. of Tata Group		•	
IV. of Tata Trusts .		•	1,35,699
V. total of III & IV .			

- (1) Director & Chief Executive Officer (Operations)
- (2) Director & Chief Executive Officer (Development)
- (3) Director and controller of Finance and Accounts.

Annexure 'G'--Contd.

· · · · · · · · · · · · · · · · · · ·	TELCO	Swadeshi Mills Co. Ltd.	Ahmedabad Advance Mills Ltd.
I. Board of Directors			
Chairman	J.R.D. Tata	N.H. Tata*	N.H. Tata
Vice Do	S. Moolgoakar		
Vice-Chairman Dy. Chairman	Vice-Chairman	N.H. Vazitdar (Jt. M.D. 1-1-70	F.J. Press
Managing Director Executive Directors (Whole-time Directors)	S. Moolgaokar		
Govt. Directors .	D.C. Ganguli		
Other Directors .	N.H. Tata	J.R. Tata	Sir F. Rahimtoola
	N.A. Palkivala	Sir F. Rahimtolla	Gautam Sarabai
	J. Zohn	B.D. Garware	Jaykrishna Harive llopbhdas
	N.K. Tunioore	Shrottam Ruthoosingh	N.K. Gantook
	N.N. Wadia	N.A. Palkhivala	J.J. Bhabha
	Carrie Carrie	F.H. Kemple	F.A. Mehta
	N.P. Godrej	C.H. Bhabha	(applied 30-6-71)
		K.M.D. Thackerey	Taj Kr. Sethi
			R.N. Tata (applied 30-6-71)
			Pratap Singh
			Mathuradas (Resigned 17-8-70)
			R.D. Choksi (Resigned 31-12-7
II. Total voting strength	17,8,71,	• 18,5,71,	as on 20-5-71
•	16,34,928	1,24,000	1,07,000
III. of Tata Group	7,968	24,377	19,149
IV. of Tata Trusts			

^{*}Chairman & Managing Director.

ANNEXURE 'G'-Contd.

	Tata Oil Mills Ltd.	The Indian Hotels Co. Ltd.	Samoon J. David & Go. Ltd.
		(28-7-71)	
I. Board of Directors			
Chairman	J.R. Tata	J.R.D. Tata	J.D. Choksi
Vice Do. ,	N.H. Tata	R.D. Choksi	
Vice-Chairman .			
Dy. Chairman .	H.A. Wadud Khan	A.B. Karbar	
Managing Directors .	R. Srinivasan		
	S.Z. Varcie	Mrs. Rodabeh	
Executive Directors . (Whole-time Directors)	N.K. Bhada	L. Sawhney	
Govt. Directors .	VAVA	S.D. Khanna (Resig 50-7-70)	ned
		S.R. Ramakar	
Other Directors .	F.H. Kemple	N.H. Tata	N.H. Tata
	A.R. Dhivandivalla	J.D. Choksi	R. Mathalone
	J.M. Ghia	J.J. Bhabha	M.K. Tata
	B.K. Shah	P.M. Agarwalla	A.B. Bilimora
	K.R.N. Menon	N.A. Palkhivala	
	B.C. Mehta	A.B. Bilimoria 31-3-71	
II. Total voting strength	81 4 ,727	18,68,000	
III. of Tata Group			
IV. of Tata Trusts			
V. total of III & IV			<i>.</i> ∙

Annexure 'G'-Contd.

	Investment Corporation of India Ltd.	Tata Power Co. Ltd.	Tata Hydro-Electric Power Supply Co. Ltd
I. Board of Directors			
Chairman .	J.D. Choksi	N.H. Tata	N.H. Tata
Vice Do.	J.R. Tata*		•
Vice-Chairman .	J.R.D. Tata		
Dy. Chairman .	A.B. Bilimoria		
Managing Directors			
Executive Directors (Whole-time Directors)		
Govt. Directors	The same	<i>a</i>	
Other Directors	N.H. Tata	J.D. Choksi	Pratapsinh, Mathura
	C.H. Bhabha	F.I. Rahimtoola	H.H. Waglo
	Pratap Bhogilal	F.H. Kemple	B.C. Mehta
	B:M. Ghia	K.C. Dakhle	N.A. Palkhivala
	P.S. Mistri	P.M. Agarwalla	S.K. Shah
	वानमन	S.R. Vakil	P.N. Agarwalla
		K.M. Chinnappa	P.S. Mistry
			K.M. Chinappa
			K.A. Dava
			(Director as on 31-3-71)
	31-3-71	31-3-71	
II. Total voting strength	653,866	353 ,280	
II. of Tata Group			
V. of Tata Trusts			
V. total of III & IV			

^{*}Vice-Chairman & Special Director.

	Andhra Valley Power Supply	Central India Spg. Wvg. & Mfg. Co. Ltd.	Tata Mills Ltd. on 1-8-71
		(Not shown as Cl	hairman)
I. Board of Directors:			
Chairman . Vice Do. Vice-Chairman .	N.H. Tata	N.H. Tata	N.H. Tata
Dy. Chairman Managing Directors Executive Directors Whole-time Directors Govt. Directors			Dr. M.D. Dewar
Other Directors	Ramniwas	K.M.D. Thackersy	B.C. Mehta
	Ramnarain	Surottam	B.M. Ghia
	K.M.D. Thackersey	Huthoosingh	
	C.H. Bhabha	Pratap Bhogilal	P.S. Mistry
	A.B. Jasdenwalla	Gordhandas Bhagwan das	N.B. Vakil
	Rama Krishna Bajaj	N.H. Varifdar	N.N. Vazifdar
	P.M. Agarwalla	M.K. Tata	S.P. Vakil (applied in 1971)
	K.M. Chinnappa	B.K. Rakahit	His Highness Maharaja Virendra Singh of Chota Udaipur
	R.A. Barve	H.D. Katrah	- unipur
	(Director as on 31-3-69)	त	
	31-3-71	V. Srinivasan	
II. Total voting strength	382,387		
III. of Tata Group			
IV. of Tata Trusts			
V. Total of III & IV			
AT TOTHE OF THE ON TA			



REPORT OF DR. H.K. PARANJAPE, MEMBER

IN THE CASE OF M/S. TATA ENGINEERING & LOCOMOTIVE CO. LTD. (DECEMBER, 1971)





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INTRODUCTION

(0.01) I am sorry that I have to submit a dissenting report in this case, in spite of our being unanimous re: the final recommendation about the proposal under enquiry. The reasons for my disagreement with my colleagues will be apparent from the analysis presented in this Dissenting Report and the conclusions at the end. I should, however, explain in this introductory part the procedural disagreement which arose in the Commission, a disagreement which is closely related to the approach to the analysis of the case and the recommendations about it.

Why Dissenting Report

(0.02) Once the proposal to expand the capacity of Tata Engineering and Locomotive Company (TELCO) was referred to the Commission, it was apparent that the investigation would have to follow two lines: one relating to the operation of the Company in the past and its expansion proposal for the future in the context of the manufacture of commercial vehicles in the country as a whole, and the other, regarding the impact of approving the proposal on the concentration of economic power in the country. The methodology to be adopted for the former type of investigation, while not quite set as yet, is not difficult to decide. The latter kind of investigation, however, is much more complex and its methodology poses many problems.

Why Examine Inter-connection

- (0.03) TELCO itself being a large company with capital assets exceeding Rs. 90 crores and thus registered under the provisions of Section 20(a) (i), it could have been said that no other investigation regarding the countrywise* concentration of economic power was necessary. It is also well known that in the production of commercial vehicles, it was a dominant concern even on the basis of installed capacity, while production-wise it was predominant. There was, therefore no dispute about its possessing 'product-wise' concentration. It could, therefore, be argued that the fact that it represented a certain concentration of economic power could have been taken for granted and no further investigations regarding this aspect were necessary.
- (0.04) It however appeared to me that, in case we found it necessary to recommend that the expansion proposal should be approved, the increase in the concentration of economic power not only of TELCO but of the Tata group as a whole would have to be taken into account. TELCO had, in its application, denied interconnection with any other company. At the same time, we could not ignore the popular belief that the group of Tata companies constituted the largest single business group in the country. The Industrial Licensing Policy Inquiry Committee had also included TELCO as one of the companies belonging to the Larger Industrial House of Tatas. Moreover, TELCO happens to be one of the largest private sector companies in the country, the largest one being the Tata Iron and Steel Company (TISCO) also said to belong to the Tata Group. I, therefore, felt that we could not ignore the possible impact of TELCO's expansion on the economic power of the Tata group as a whole. For this purpose, it was necessary to examine whether TELCO's contention that it was not interconnected with any other company in terms of the MRTP Act was valid. It was especially important to examine whether there was any interconnection between TELCO and TISCO as TISCO happens to be the largest single shareholder in TELCO, holding 18 per cent of the shares. If these were inter-connected with each other and with other Tata companies and if TELCO's expansion was to be approved thus increasing the dominance both in terms of country-wise and productwise concentration, care had to be taken to examine whether this expansion should be made conditional so as to prevent or reduce any possible addition to the economic power that the Tata group as a whole might represent. It was obvious that any such approach would require the Commission to examine whether TELCO was inter-connected with TISCO and with other Tata companies in terms of the MRTP Act. I, therefore, thought that an enquiry regarding whether TELCO is inter-connected with other Tata companies was necessary as a part of this enquiry.

The Conduct of the Investigation

(0.05) It was obvious that, as in the earlier cases dealt with by the Commission, even in this case the enquiry was going to be considerably handicapped because of the difficulties continued to be faced by the Commission regarding the availability of research staff. The only

officials available to assist in the Commission's work on the technical side were the Director of Investigation supported by an Assistant Director, and the Deputy Secretary also supported by an Assistant Director. With the difficulties regarding staff was the added difficulty arising from the fact that the MRTP Act has many gaps specially from the point of view of organising an investigation. There was also the major problem mentioned earlier that this whole field of concentration of economic power and interconnection is almost a virgin field for investigation except for the work done by Prof. R.K. Hazari and the Industrial Licensing Policy Inquiry Committee. The abolition of the managing agency from April 1970 made this investigation even more complex as both Hazari and the ILPIC had very much depended upon the existence of the managing agency for establishing inter relationships among different industrial concerns.

- (0.06) In spite of these difficulties, the Commission decided to undertake such an invsestigation. To begin with, questionnaires were issued for certain basic factual information to all the companies that were listed in the ILPIC report as belonging to the House of Tatas. Some information was also called for from the various Tata Trusts. A sample questionnaire is given in the annexure. It was apparent that providing this information was bound to be a difficult and time consuming operation for all the companies. Certain senior persons connected with Tata Companies, viz., Sarvashri JRD Tata, S. Moolgaokar, N.A. Palkivala, and F.A. Mehta met the Commission and complained about this. It was, however, explained to them that, as it was claimed that TELCO was not interconnected with any other company and especially with TISCO in terms of the MRTP Act, and as the Commission thought it necessary to examine whether this claim of the company was valid, there was no alternative to collecting such information. It was said then and also later that too many details were called for which were irrelevant for this purpose. There can be genuine difference of opinion about this. As this was the first investigation regarding interconnection under the Act, it was necessary to err on the safe side and include such information as could be of possible use. After the abolition of the managing agency, it was known that companies belonging to many groups had adopted methods by which coordination and common control were maintained but there was no clear information available about exactly how this was being done. It was therefore necessary to go over a wider area at the beginning so as to find out the possible clues which might be relevant in the light of the definition of interconnected undertakings given in the Act. After this initial informal protest, all the Tata companies cooperated and provided answers to the questionnaires that had been issued to them.
- (0.07) After analysing these answers, it was felt that certain clues needed to be followed up more intensively. For this purpose, it was thought necessary that more detailed information about certain companies should be obtained and certain records examined, especially for the recent past. When notice was served on the companies for this purpose, the companies made a protest questioning both the relevance of these information to the enquiry on hand the Commission's legal authority to call for such information and records. However, following a discussion between Shri N.A. Palkhivala and the Commission's Chairman, the companies again decided to cooperate without prejudice to their legal objections and made all the required information and records available to the Commission. A preliminary analysis of all these materials indicated that the hypothesis regarding interconnection among the more important Tata companies would probably be substantiated. The Commission came to this conclusion unanimously.

Difference of Opinion

(0.08) Unfortunately, the Commission's unanimity in this matter abruptly ended at this stage. My two colleagues by majority decided then that, while enough materials had become available to indicate that the hypothesis could probably be substantiated if further evidence was properly collected, it was not necessary to do so for the purpose of the present enquiry. My argument that, having gone thus far, stopping the investigation at that stage would, to say the least, create a poor opinion regarding the Commission's methods of investigation made no impression on my colleagues. Not only did they think that any further investigation regarding interconnection was unnecessary but they also decided by majority that I should not pursue this line of investigation using the machinery of the Commission even if I thought that the continuance and completion of such investigation was necessary. I pointed out that it was my view that, with the material that we had already collected, with intensive work of a further fortnight or so, the investigation could be taken to a stage which would be sufficient for the limited purpose of this enquiry, and that therefore this objective could be achieved without upsetting the schedule of the enquiry. This also made no difference to my colleagues. They insisted that it was the right of the majority to prohibit a line of investigation on the part of the minority and they were exercising that right.

(0.09) The main arguments of my colleagues in support of the line that they adopted appear to be as follows:

The Majority View

- 1. This is a case of national importance particularly at this juncture since the army depends mostly on TELCO for supplies of trucks. It is therefore necessary to send the Report at an early date.
- 2. The Tata Companies may not cooperate in any further investigation and this would prolong the enquiry.
- 3. The interconnection enquiry is not important in this case and it will be important only if we had a case under Section 27.
- 4. TELCO is already a Large Industrial House by itself with total assets exceeding Rs. 20 crores.
- 5. When enquiring into an application made by TELCO, it would not be permissible to recommend that TISCO should give up its share in TELCO.
- 6. Even if that could be done, TISCO would have to be given a complete opportunity to put forward its case which would further prolong the hearing.
- 7. As the share of public financial institutions in TISCO is 38%, the question of share-holding by TISCO in TELCO is of little importance.

The Minority View

- (0.10) I shall deal with the substantial arguments in the course of subsequent Chapters. As regards the preliminary arguments, however, I should say that they seemed to me to be quite out of place. I had already explained on the lines mentioned above the reason why I thought that an enquiry regarding the interconnected nature of Tata companies was necessary in this case. It is of course possible that my colleagues might have disagreed with that approach. What is not easy to understand is why, having initially agreed to institute the investigation, they should have decided to stop it at a time when the investigation was more than half way through. My colleagues said that they initially agreed to it out of difference to my suggestion. If that was so, there was no reason for them to stop the enquiry at a late stage, specially when I had agreed to complete it in the best way I could within the time schedule that had been agreed upon. The argument about TELCO's contribution to defence requirements in the present emergency was in my view quite irrelevant. Even if the completion of the enquiry was to be delayed by a few more weeks (which was not my proposal), that would not make any difference to TELCO's supplies of trucks to meet the present emergency. It was, therefore, difficult to understand my colleagues' argument in favour of stopping the investigation mid-way and insisting on prohibiting me from conducting it any further. Even my suggestion that certain companies, especially TISCO, and prominent individuals connected with Tata Companies should be summoned as witnesses was turned down by my colleagues by majority. It was, therefore, not possible for me to pursue certain lines of investigation which in my view were relevant and important for establishing the interconnected nature of some of the Tata companies.
- (0.11) Regarding the possibility that the Tata Companies might not cooperate any further if the investigation was pursued, I am not aware that any such indication was given by them. It is true that they had protested twice about it, once putting their protest on record, but afterwards they had offered full cooperation to the Commission. After all, it was in their interest also that the matter should not be either prolonged or left unresolved but conclusively decided one way or the other. There was, therefore, no reason for any such apprehension. Further, the Commission had unanimously taken the view at their second protest that it would be quite harmful for the Commission's functioning in any threats of non-cooperation were permitted to swerve the Commission from the investigations which it considered necessary. This was a very important plank of the Commission's policy and there was no reason to make an exception to it.

The Purpose of The Enquiry

(0.12) A further question that comes up in this connection is—what exactly is the purpose of an enquiry by the Commission of a case referred to it under Chapter III? The Commission is asked to enquire into a case only when the Central Government comes to the opinion that it cannot decide whether it is expedient in the public interest to accord approval to a proposal "without further enquiry".

It is, therefore, obviously envisaged that the enquiry by the Commission must be more elaborate and detailed than the normal departmental investigations undertaken by the Licensing Committee or the Advisory Committee. In this context, it is also important for the Commission to take note of the points raised in the Advisory Board or the Economic Coordination Committee of the Cabinet when the decision to refer the case to the Commission is taken. These points indicate the special aspects which the Government has in mind when it decides that a further enquiry by the Commission is necessary. In my view it is also important that the commission must look at the individual case referred to it in the total perspective of industrial structure and industrial growth. Alternative methods of achieving the objectives of the proposal under enquiry should be thought about in the light of the general purposes of the Act as set out in its preamble and the special considerations set out in Section 28. Attempting to complete the enquiry with speed is of course important.

I have already indicated on an earlier occasion that I was one of those who in my evidence before the Joint Select Committee on the MRTP Bill had emphasised the importantee of speedy disposal of cases under the MRTP Act. But speed obviously should not be at the cost of thoroughness. The cases coming to the Commission for further enquiry are bound to be of large magnitude in terms of investment and of major importance in terms of their impact on the economy. It is my view therefore that the Commission must accept the responsibility of making thorough enquiries and providing Government with an analysis of the various important aspects relating to the proposal so that the Government can take a decision on it in full knowledge of its implications. If speed of disposal is of the essence in a particular case, it is unlikely that the Government will refer the case to the Commission; it has the authority under the MRTP Act to dispose of such a case by itself.

Propriety of Over-ruling Minority investigations

- (0.13) I also raised the question whether it was appropriate that the majority in the Commission should stop a Member from pursuing a line of investigation which he considers essential for arriving at conclusions regarding the case under enquiry. I pointed out that the reference to majority and minority in Section 6(6) of the Act is essentially to the 'opinion' or 'orders' of the Commission in respect of the cases under Chapter III on the one side and Chapters IV and VI on the other. But before we can come to a conclusion that there is a difference of opinion amongst the Members of the Commission, each Member must first form an opinion. It has, therefore, to be understood that whatever reasonable investigation and collection of evidence a Member considers necessary for coming to an opinion about the case must be available to him. I therefore, suggested to my colleagues that it was not appropriate that they should not only stop continuing a certain line of investigation but also prohibit me from proceeding with it.
- (0.14) My colleagues relied on Section 18 (1) (a) which gives the Commission the power to regulate the procedure and conduct of the Commission's business. They held it to mean that the majority in the Commission can decide the particular line of enquiry it will pursue and also prohibit the minority from pursuing its own course. "To hold otherwise", it was said, "would mean that in a case like this when the majority considers it sufficient to hold enquiries which would enable it to complete it within three months, the minority can go on gathering information and using the machinery of the Commission for that purpose for an indefinite period." It was also suggested by them that there may perhaps be no objection "if the Member in the minority can pursue a line of investigation on his own without using the machinery of the Commission."
- (0.15) In my view, this was an undue stretching of the power of the majority. I pointed out that in the composition of the Commission as laid down in Section 5 (2), persons with different background such as economics, law, accountancy, industry or administration are to be appointed as Members. The obvious implication is that they will each bring to bear their respective knowledge and experience on the case under enquiry. Each one of them may have a wholly or partially independent line of approach regarding the investigation of the case and would like to collect data and evidence from that point of view. Only when each Member applies his own specialised knowledge and expertise to the problem can the overall enquiry by the Commission be carried out in the best possible manner. This is obviously the underlying approach in constituting a multi-Member Commission of persons with different backgrounds. This arrangement cannot but be upset if the line of investigation that one Member considers necessary in investigating the case is ruled out as irrelevant and unnecessary by other Members on the basis that they form a majority. This way the majority would in effect prevent the Member in minority from carrying out his proper functions as a Member. I did not agree that this was the implication of Section 18. The idea that the minority can perhaps conduct the investigation on its own 'without using the machinery of the Commission' is even more peculiar. This is not a private matter to be pursued by a Member on his own. What the Member would be trying to do would be essentially in pursuit of his functions as indicated by the Act and by his oath of office.

- (0.16) As I found that my colleagues and I could not agree even regarding the interpretation of these provisions in the Act, I had further suggested that we might refer the matter to the Ministry of Law for an advisory opinion. I suggested that this should be done urgently as it was of vital importance in regard to this particular enquiry. My colleagues, however, did not agree to this. They pointed out that the Chairman was in any case a legal expert and the Ministry of Law is not a Court which can decide our difference of opinion. No way was, therefore, left open to resolve this difficulty and complete the investigation to my satisfaction. My contribution to the enquiry has, therefore, suffered because I have not been able to collect the data and evidence that I thought were essential for examining the case.
- (0.17) The Government may take a note of these limitations when considering my Report. If they find any substance in my hypotheses, they may take steps to further examine these hypotheses through fuller investigation. The Government may also consider what remedy a Member faced with such a situation has if he is prohibited by his colleagues who form a majority from conducting the investigation which he thinks necessary. The working of a Commission of this kind can be vitiated and healthy conventions regarding its functioning will not be set up if this situation continues.

Shri Tata's Criticism of the Commission

- (0.18) Just a few days before the Commission held its public hearing regarding the TELCO enquiry, Shri J.R.D. Tata, Chairman of TELCO, made a public statement in his capacity as Chairman of Tata Chemicals Ltd. In that statement, he criticised the Monopolies Commission in severe terms and particularly directed his attach on the investigation by the Commission regarding the possible interconnections among Tata companies. He alleged that—
 - "In the last few weeks little else has been done in the Head Office of (Tata Chemicals) and of other companies in Bombay House than to answer a host of questions and submit a mass of documentation to the Monopolies Commission, not in regard to a project even remotely concerning (Tata Chemicals) but to a project of the Tata Engineering and Locomotive Company: Even more surprising is the fact that most of the information sought from us is totally irrelevant to the TELCO expansion project itself, and certainly irrelevant to our own activities."

He called this investigation by the Commission—

"not only an inexcusable waste of the time of Government and corporate officials but a form of undeserved harassment of companies and officials who try to do a good and honest job and serve their company and their country to the best of their ability."

He went on to draw the attention of the Prime Minister to this, what he considered one of the most flagrant examples of road blocks to progress.

- (0.19) In the background of the informal discussion that Shri J.R.D. Tata and his colleagues from Tata Companies had already had with the Commission, it was very unfair (to say the least) of Shri Tata to have made a public attack on the investigation in the manner that he did and expecially at the time he did it. One can appreciate his resentment at the companies in the Tata group having to spend time on providing detailed information of the kind asked for; but he should at least have acknowledged that he knew what it was all about. It had been explained to him that such an investigation was inevitable if the companies continued to insist that there was no interconnection among them. The question of what constitutes interconnection is bound to be a little difficult to decide in this early stage of the MRTP Act, and if the Commission erred on the side of collecting various kinds of evidences so as not to miss out any worthwhile clue, surely it could not be considered inappropriate. Or does Shri Tata except that the Commission and the Government should always work at a handicap even when there is a possibility that Government's decisions may be later challenged in law courts? Just as, to Shri Tata and his colleagues, it was almost self-evident that there was no interconnected. Did he expect the Commission to take his or his advisors' word as conclusive in a matter like this? Was it not the obvious responsibility of the commission to collect the evidences that it conisdered relevant for examining whether the companies are interconnected or not?
- (0.20) Even worse than Shri Tata's making a statement as if he did not know the purpose behind the Commission's investigation—he may not consider it necessary but that is another matter—was the timing of the statement. When dealing with the cases under Chapter III, the Commission

works in an advisory capacity and not like a court; but surely it was hardly appropriate that the Chairman of a company whose application was under consideration, even in his capacity as Chairman of another company, which itself was also being investigated for the purpose of ascertaining whether it was interconnected, should make a public statement criticising the investigation. As the Chairman of the Commission aptly put it at the public hearing, it was most unfair of Shri Tata to do this because it was not open to the Commission to answer him back during the conduct of the investigation. Shri Tata's calling upon the Prime Minister to do something about the matter might easily be interpreted as an attempt to bring undue influence to bear on the conduct of the enquiry by the Commission. Shri Moolgaokar who represented TELCO at the public hearing, assured the Commission that this was far from being Shri Tata's intention. It must, however, be recorded that it was quite wrong on the part of Shri Tata to have made the statement that he did at the time he did it. Nothing would have been lost if he had waited till the report of the Commission was submitted. At that stage, it would have been open to him as to anyone else to criticise the Commission and its investigations in this case. It need not be added, that, however unfair and improper Shri Tata's utterance, the Commission has not taken any further notice of it in conducting its enquriy and has not permitted it to influence its findings.

- (0.21) In the remaining part of this Dissenting Report, I am confining myself to analysis which I find necessary to present in support of my approach to the Case. The Majority Report contains the basis facts and I shall not repeat them. I shall refer to the Majority Report for statistical Tables etc. where necessary. I am presenting data only where they are not furnished in the Majority Report at all or where I want to present them specially differently as in the Scheme of Finance.
- (0.22) After taking note of the main points put forward by TELCO in support of its proposal (Chapter I), I go on to examine the basic problems relating to the justification for expansion (Chapter II). Next comes the question of the alleged interconnection among Tata companies (Chapter III). Then follow an examination of the Scheme of Finance (Chapter IV) and, at the end, conclusions and recommendations (Chapter V).

ANNEXURE TO INTRODUCTION

No. 1 (10)-Enq./71.

Monopolies & Restrictive Trade Practices Commission
'Bharat Scouts & Guides Building'
16, Ring Road, Indraprastha Estate,
New Delhi-1

dated the July, 1971

To

The Principal Officer

Subject:— Enquiry under Section 21(3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969—M/s. Tata Engineering & Locomotive Company Limited —Calling of Information.

Dear Sir(s),

With reference to the above, I have to request you to please make it convenient to send the following information pertaining to your company at your earliest convenience latest by the 12th August, 1971.

- 1. Names of the shareholders holding more than 1% of the total subscribed capital (equity preference or of any other category) in the company as on today and as on the last days of the three previous accounting years.
- 2. Names of the Directors of the company during the period referred to at (1) above and details regarding other Directorships etc., held by them during this period.

- 3. Please furnish an organisation chart of the company. Also state the specific rules assigned to the Chairman/Vice Chairman/Managing Director/other Directors/Secretary, Committee of Directors/ Senior Executives (ignore those which are not applicable) with information about the power(s) delegated to these.
- 4. Please mention broadly about the main business of the company.
- 5. Details about common facilities enjoyed by the company with other Tata companies and organisations as listed in the Report of the Industrial Licensing Policy Enquiry Committee during the above period may be given.
- 6. The names and addresses of the:
- (a) auditors,
- (b) Solicitors and legal advisers,
- (c) publicity agents
- (d) main purchasing agents

In India and abroad.

- (e) main selling/distributing agents j of the company as at present and during the last three years may be furnished.
- 7. Whether the company participated in the recent Tata exhibition at Delhi? If so, the following details may be furnished
- (i) Who were the organisers of the exhibition?
- (ii) Who in the management, of the company took the decision that the company should participate in this exhibition?
- (iii) What common facilities were provided by the organisers of the company for this exhibition?
- (iv) How much money the company was required to incur for this exhibition and how the same was worked out? Classification of expenses under various heads like establishment, rent, advertisement and publicity etc., may be specifically mentioned.
- 8. Whether the company has entered into contracts of rent in respect of buildings/factories distributing centres, etc.? If so, the names of the persons with whom such contract have been entered into may be mentioned. If not, what arrangements in these matters have been made may be specified.
- 9. Your company has been shown as a company belonging to Tata Group in the Report of the Industrial Licensing Policy Enquiry Committee. Under the new Licensing Policy this was accepted by Government. Whether the company made any representations in this regard during the stipulated period? If so, with what results? (furnish copies) If not, why not?
- 10. Copy of the Directors' Report and Profit and Loss Account and Balance Sheets for the latest year and preceding 3 years may be sent. (if not already sent to the Commission).
- 11. Please furnish a copy of the Memorandum and Articles of Association (as amended uptodate) of your company.

The above information is required under Section 12 of the M.R.T.P. Act, 1969 and may please definitely be sent by the date mentioned earlier.

Thanking you,

Yours faithfully, Sd/ (T. N. PANDEY) Deputy Secretary

CHAPTER I

TELCO'S OWN CASE

(1.01) The justifications put forward by the applicant Company in favour of its application have already been indicated in detail in the main report of the Commission. It is therefore not necessary for me to go into them except for the prupose of picking out a few specific points which are in my view of special importance and whose examination is, in my opinion, important.

Foreign Collaboration

(1.02) TELCO established collaboration with a good foreign producer of automotive vehicles. M/s. Daimler-Benz, who enjoy a world wide reputation for technical excellence and the high quality of their vehicles. We need not go into other aspects of this collaboration. The main point of importance for our present investigation is that the collaboration agreement was for a 15 year period, 1954 to 1969. The applicant Company apparently made excellent use of this period for learning the special features of the collaborating company, and especially its insistence on the development of human skills, quality control and R & D. Having learnt all that it could from the collaborator, the Company prepared itself for the termination of this agreement by developing its own R & D effort and the agreement was terminated at the end of the specified period. While a licensing arrangement for the manufacture in India of a higher horse power direct injection OM-352 engine has been entered into from 1969 for a period of five years, this is confined to that particular proprietory item to enable its manufacture by the applicant company in India.

R & D:

- (1.03) One of the important features of the applicant Company is its creation of an R & D organisation of great utility and high reputation. While its expenditure on R & D was not very high in the initial years, it was rapidly increased a couple of years before the termination of the collaboration arrangement, i.e. from 1967-68. Since then various special facilities for continuing the R & D effort have been created and important results have been achieved (*).
- (1.04) As has already been indicated in the Main Report, the Company has achieved important and useful results from its R & D efforts. It has been able to assist in the development of indigenous ancillary sources of supply both in its own shops and, to some extent, in ancillary industries. It has evolved standards for various items in the vehicles. It has introduced a number of modifications to make the vehicles especially suitable for Indian conditions. It has also developed a new engine which it proposes to instal in its vehicles. Lastly, it has developed new products such as special purpose vehicles and also prepared its own design for the ten ton vehicle which it is expecting to produce as a part of the expansion plan. The most important result of what the Company has done by way of organising the R & D effectively is the creation of confidence among its own employees as well as in the country that sophisticated engineering development can be effectively undertaken in India which would compare with the very best anywhere in the World. This is also of importance in the development of an export market for the company's vehicles.

Quality Control

(1.05) One of the important aspects of TELCO's vehicles is the insistence on quality control. The company has adopted the practice of observing strict quality control at various stages of production—from the purchase of materials and components to the final stages of the vehicle's production. A system of SQC is in operation and is strictly observed for shop-produced items. A similar insistence on quality is maintained regarding the bought out ancillary item. Many ancillary producers and the

^{*}The problems that arise in developing countries in such matters have been listed by J Baranson-Automotive Industries in Developing Countries (IBRD, Washington D.C. 1969, Pp. 24-27). The most important ones that the lists are odoptation of product designed to suit local conditions and also availability of basic materials, developing quality standards and capabilities of the various component supplies, developing shop production of key items for which a neillaries are not developed and getting over manpower deficiencies for important operational areas. It will be seen that TELCO has devoted special attention to these various problems.

Automobile Ancillaries Association have testified to the long-term advantage which this approach of TELCO has conferred on the ancillary industries.

(1.06) We received few complaints regarding the quality of the vehicle itself from various categories of consumers—large fleet owners such as State Transport Organisations, the Defence agencies in charge of Motor Vehicles and the D.G.S. & D. Even the Defence Vehicles Organisation, which is very particular about the quality of vehicles, expressed statisfaction with TELCO's approach to this matter. Even though they mentioned certain deficiencies for their special applications, they expressed satisfaction that there was a constant endeavour by the Company to bring about improvement wherever any difficulties were encountered. The company has given enough evidence to indicate the consumer preference for its vehicles which is also generally known in the market. Its vehicle also enjoys a higher resale value, which itself is a good indication of the technically high quality of the vehicle.

Ancillary Industry

- (1.07) The applicant company has a larger proportion of shop produced items as compared to the other automobile producers. This is partly the result of its having installed capacity for producing some of those item before ancillary industries capable of producing them developed. Moreover, its insistence on quality control cannot be evaded and it takes time for certain ancillary units to accept this approach, understand it and improve their own production qualities. The assistance that the Compnay claims it gives to ancillary industries wherever necessary has already been mentioned in the Main Report. It has also been indicated there how a number of ancillary units have testified to the assistance that they obtained from TELCO.
- (1.08) There are however two aspects of this question which should be noted. The first is that there are certain items which the ancillaries claim that they are in a position to produce but TELCO continues to produce. The Company's response to this criticism is that it is continuoly exploring the possibility of off-loading as many items as possible, concentrating only on the more important and difficult items for its own production. At the same time, it cannot afford to off-load an item unless it is certain that capability for its production at the required quality has been created in the country. The company has quite rightly pointed out that providing a sample of a satisfactory quality is not too difficult; what does not always follow is the maintenance of such quality in a regular way in production and supply. It is therefore quite clear that while the Government will have to take care that for the new proposed unit at Poona, capacity for items of well established quality is not created, the company's point of view regarding the importance of maintaining quality cannot and should not be overlooked. The maxim regarding not permitting the horse to be secrified for the sake of a nail should not be forgotten.

Spare Parts

(1.09) The related question to which the company's attention was drawn by the Commission was the complaint by a number of consumers regarding shortage of genuine spare parts at reasonable prices. As the company's production has been increasing and the fleet in operation in the country is expanding, the demand for spare parts has naturally increased. It appears that operators find much difficulty on obtaining genuine spare parts from the authorised dealers. The Company explained that it is aware of the problem and has been trying to increase the availability of the spare part. It also pointed out the difficulties faced by it including the delay in obtaining licences for increasing the capacity to produce certain items. While one may appreciate these difficulties one is certainly left with a feeling that the company has not given adequate attention to this matter in the past. This is certainly an avoidable blemish on its record. It is undoubtedly the moral responsibility of the company to make sure that genuine spare parts in adequate quantities—both of its shop produced items and bought-out items—are available with its authorised dealers at appropariate prices. Its increasing production by utilising most of its own capacity for the production of a whole vehicle and leaving the vehicle owners largely to the mercies of the market for spares cannot be considered fair (*). It is therefore essential that when planning its expansion at Poona, the Company must make enough provision for the production of spares in proper quantities. The same would be true about foundry items regarding which there seems to be a special difficulty

^{*}It is instructive to note in this connection that according to the data for 1965-66 and 1966-67 furnished to the Tariff Commission, TELCO's realisation from sale of spare parts was proportionately much lower than Ashok Leyland and about equal to (or less than) Premier even though its proportion of self manufactured items was very much higher. (See Tariff Commission: (i) Report on the Continuance of Protection to the Automobile Industry (1968), pp. 142-144; (ii) Report on the Fixation of fair selling prices of Automobiles (1968), p-13.

It must therefore create extra capacity in the proposed foundry to meet the requirements for original parts as well as for spares. Whatever additional investment is required for this purpose should be carefully calculated and included as a part of the expansion project before it is approved. One wonders why the Company itself has not given more attention to this matter.

Tranining

(1.10) As a part of its approach to building up its productive capability on a long-term basis, the company has organised an elaborate training programme. We need not go into the details of its various training programmes except to say that its organisation for this purpose is one of which any productive unit can be proud. The company has indicated that out of a total 3510 trade apprentices recruited over the past 17 years, 2702 have completed their training and 1327 of them are working in the company. Similarly, out of a total of 34 post-graduates, 341 graduates and 233 diploma holders in engineering who completed apprenticeship in the Company, 24,194 and 200 respectively have been absorbed in the company's staff. This training programme is undertaken at considerable expenses to the company, the cost of training expenses varying from about Rs. 16,000 in the case of supervisory apprentices to about Rs. 22,000 in the case of post-graduate apprentices. This investment in human capital obviously pays dividends to the Company. It would hardly have found it possible to build up high quality production without such a well-conceived and carefully organised training programme covering various types of persons, potentially and actually in its employ.

Exports

(1.11) As has already been explained, the Compnay has shown a good record in exports even from the time when it was under no obligation to do so. To a large extent, this has been possible as a result of its inistence on quality control and therefore the reputation that the products have come to enjoy in the international market where there is severe competition for the sale of automotive vehicles.

Price Policy

- (1.12) Regarding the price policy pursued by the applicant Company, the Company has claimed that it has absorbed a substantial portion of cost increases, which otherwise the customer would have had to bear, only as a result of the programmes of expansion of capacity carried out from time to time, the steady improvements made in production methods and its constant endeavours to bring about efficiency in operation.
 - "Whenever price increases did take place, the Company saw to it through product improvements and development that the customers received an improved product which was good value for their money. We might cite it as an eloquent instance that in 1964-65, when we marketed the 7½ ton vehicles, although the carrying capacity of this vehicles was 50 percent more than that of the 5 ton vehicle produced by the Company, the price was only marginally higher by 4 per cent. Considering that there were then acute scarcity conditions in the market for commercial vehicles and the customer had an overwelming performance for our vehicles, the above would clearly show that the company's pricing policy was tempared with self-restraint."

The Company has also given as an example the fact that the price of its vehicle is less by over Rs. 7,000 than that of a comparable vehicle produced by Ashok Leyland.

- (1.13) The accompanying tables (Tables 1.1 and 1.2) regarding the price changes effected between 1961 and 1967 and the prices charged to the D.G.S. & D by the different producers provide an indication of the price changes that have been effected by the different producers of commercial vehicles in recent years. The prices of commercial vehicles were informally controlled upto 1967. Both in the period before decontrol, and since then, the company has made increases in its prices which are not much higher than those made by other producers. The company has not exploited the consumer preference for its products too glaringly by hiking up prices and obtaining very large profits.
- (1.14) The Company has not claimed any special economics of scale obtained in the past as a result of the expansion of its capacity and it has put forward no such claim for the future. As a matter of fact, its point is that basic materials and bought out items constitute such an overwhelming por tion of the total cost of production that the possibility of obtaining economics of scale as a result expansion is very limited. Further, its expansion in the existing plant at Jamshedpur is going

to be only marginal. The main part of its expansion is going to be seting up of a new plant at Poona. In the present stage of development the capacity of the new plant will be only 9,000 vehicles. There cannot be any significant production economics of scale as a result. The company of course can obtain economics even through such an expansion regarding its R &D, and commercial and managerial aspects. The company has pointed out that it would be difficult to give a clear indication of the economics that would result from expansion and therefore the benefit that would be passed on to the consumer through reduced prices. It has stated—

"To the extent the inflationary tendencies and the financial needs of the industry would permit, the company's pricing policy in respect of the new types of vehicle proposed to be produced would continue to be characterised only by the same twin objectives, viz., self-restraint and customer benefits."

We shall have further occasion to discuss this when examining the Scheme of Finance. It should also be noted that the Company has rightly claimed that it has pursued a prudent financia policy and especially that its distribution of dividends has been moderate and restrained.

Possible Benefits From Expansion

(1.15) The company has therefore claimed that the proposed expansion programme will contribute to the common good of the country. It will provide to the team of highly qualified engineers in its Engineering Research Centre "challenging outlets to their creative endeavours," to its supervisors and skilled workers "career opportunities", to a large number of ancillary manufactures "increased employment potential" and to the host of the unemployed "job opportunities in the road transport field". The company has quoted an estimate of the National Council of Applied Economics Research that every commercial vehicle produced creates employment, direct or indirect, for 11 persons. The Company has claimed "to be the biggest single generator of employment opportunities in a multiplier manner, not only in the broad sense of the whole gamut of employment offsets created but in the specific sense of nursing a chain of new entrepreneurs in the small and medium sectors of industry in which TELCO itself has no financial or any other interest or Control".

It has also pointed out that infrastructure facilities have been developed at its works in Poona at considerable effort and expense as also management strength.

"Those will lend themselves ideally to setting up of an engineering complex with an export potential and for meeting the growing domestic demand."

सत्यमेव जयते

TABLE I.1

Increase in not dealer Prices* of Commercial Vehicles since 1961

	Specifications: 1. Hindustan M	: 1. Hindusta	n Motors Limited	mited			2. Premi	er Automok	2. Premier Automobiles Limited	
Year	120" WB Diesel Chasis	167" W.B. Diesel Chasis	120" W.B. Petrol Chasis	167" W.V. Petrol Chasis	179" W.B. Diesel Chasis	5B 216" Diesel Chasis	153/165" Petrol Trucks	Dodge	193"/190" Diesel Bus	116"/133" 1 Tonne Trucks
. 1961	22400	22180	16875	16655	22867	24872	18289	23916	24074	13922
1962	22400	22180	16875	16655	22867	24872	18289	23916	24404	13922
1963	23374	22247	16914	16729	22895	24872	18289	23916	24174	13963
1964	24051	24699	18326	19144	24936	25776	19802	25483	25558	15409
1965	24232	24880	18507	19325	25117	26705	19991	25671	25634	15432
1966	25419	26067	20041	20859	26188	27873	22201	27637	27512	16603
. 1961	29196	29844	23229	24247	30066	28599	24297	29605	29432	16902
1967 1961 Percent	130.3	134.6	138.8	145.6	131.5	115.0	132.9	123.8	122.3	121.4
				:						

Note :-*The Prices are as in January of cach year.

Source :- Report on the Fixation of Fair Selling Prices of Automobiles' Tariff Commission, 1968.

TABLE 1.1(Contd.)

Increases in net dealer prices of Commercial Vehicles since 1961

	S.	pecificatio	Specifications: 3. Ashok Leyland Limited	hok Leyla:	nd Limite	75			4.	4. Telco		
Year	ECPO2/ALACOP	ACOP		ECC	ECOS2/ALCO						07/01/001 1	
	IR or 1/1	2 R or 1/2	3 R or 1/3	4R or 1/1	IR or 1/2	2R or 1/3	1/2 1/4	L312/42 L	P 312/48	L312/42 LP 312/48 LA 312/36	LIZOIO	#2 LP 1210/52
1961	33200	32800	31660	32500	32000	31800	¢	27601	29236	33717	•	:
1962	33840	33440	32250	33140	32640	32440		28315	29941	34431	:	:
. 6961	34186	33786	32596	33486	32986	32786		28562	30210	34678	:	:
1964	35668	35268	34078	34979	34479	34279	34903	30831	32088	37430	:	:
1965	35686	35286	35246	35597	35497	35097	35721	31046	32282	37988	33412	34648
. 9961	38717	38417	38277	38665	38565	38165	38789	34230	35139	41607	35593	36559
. 2961	41767	41385	41237	41684	41576	41130	41754	37286	38101	46895	38877	39849
1961												
1961 . Percent.	125.8	126.2,	130.5	128.3	129.9	129.3	119.6*	135.1	130.3	139.1	116.4**	115.0**
			*	*1967	,		**1967	29				
			-	1964			=	1965				

TABLE I.2

Statement Showing the R/C Net Dealer Price Excluding Excise Duty for Various Types of Vehicles During the Last 5 Years

Manu	Manufacturer	ង						M/s. Telco	Ashok Leyland	Premier	Hindustan	Standard	Mahindra
Model								L312/42-103	uo1 \$/	109P6-165"	109P6-165" WB J-5-167 "WB		PC-150
								Rs.	Also 3/4-118" Rs.	Rs.	Rs.	One Ton Rs.	Rs.
1-1-1967			•					33038	41841	29605	29809	14080	17847
1-1-1968						•		33380	42768	29605	29559	14080	18057
1-1-1969			•	•				34113	43551	31781	29559	15520	18512.55
1-1-1970				•				35162	45293	32909	31141	15520	18515.00
1-1-1971						. •	•	36340	47327	33312	32443	16587	18815.00
1-7-1971					•	•	•	41334	47826*	34118**	34266	16587	not on production
1-7-1971	•				•	•	•	125.11	114.3	115.2	115.0	117.8	105.4+
1-1-1967													
Per cent									121.4@	120.2@@			:

**Rs. 35868 has not asked from 12-7-1971.

^{*}An increase of Rs. 2972/- has been asked for w.e.f. 1-7-1971. @With increased price as asked.

⁺¹⁻¹⁻¹⁹⁷¹

¹⁻¹⁻¹⁹⁶⁷

Source: - Directorate General of Supplies and Disposals.

CHAPTER II

THE JUSTIFICATION FOR EXPANSION

(2.01) The details of the expansion proposal put forward by TELCO have already been given in the Commission's Main Report. The overall position about the demand estimates etc. has also been given in detail there. I would confine myself to a few pertinent points relevant to the particular approach that I would like to place for consideration before Government.

Capacity Required

(2.02) As has been pointed out, the demand for commercial vehicles for 1973-74 has been assessed at 85,000 p.a. for which it is estimated that an installed capacity of 90,000 p.a. would be required. The capacity at present licensed is 73,400 p.a. and the installed capacity 62,000 p.a. From the point of view of the requirements of capacity, there is thus a clear gap which needs to be filled. If we take into account the fact that the gestation period in the case of an industry like this even for an expansion project is likely to be not less than three or four years and examine the expected demand for the Fifth Plan period as well, the necessity for the creation of extra capacity becomes even clearer. The findings of the demand survey commissioned by TELCO have been made available to the Commission; they appear not to be unreasonable and indicate that the demand for chassis to be used as trucks is likely to exceed 86,000 trucks by 1979-80. In addition, there would be the demand for chassis to be used as buses and this may well amount to a quarter of the demand for chassis used as trucks. In addition, we have to take note of the demand for defence purposes and also a provision for exports. There is therefore a clear necessity to plan for an expansion of the existing capacity in the industry so that the capacity increases substantially, say by 30 to 40 per cent over the next decade.

Ten Tonners

(2.03) Moreover, going further into the break-up of total demand among different types of commercial vehicles, TELCO has put forward a good case in justification of its estimated that the demand for vehicles is likely to change from the 5 or $7\frac{1}{2}$ tonners in favour of behavier vehicles on the one hand, and lighter vehicles on the other. It has thus been indicated that the demand will increasingly shift in favour of 10 tonnes vehicles as compared to the $7\frac{1}{2}$ tonner vehicles in the last decade. For this reason, TEECO wants to create in its proposed new unit at Poona capacity for the production of 10 tonnes vehicles. It is of course not possible to be very certain about the pace at which the demand for 10 tonnes vehicles will increase. The Compnay is therefore right in stating that while it intends basically to create capacity for 10 tonners, the actual distribution of production between $7\frac{1}{2}$ tonners and 10 tonners will have to be flexible according to market conditions. The Company will of course be interested in maximising the production of 10 tonners.

Off-Highway Vehicles

- (2.04) TELCO also wants to expand its capacity at Jamshedpur by certain marginal additions for the production of 3,000 off-highway vehicles. As indicated in the Main Report, the Company is already supplying to defence organisations and other governmental agencies a certain number of such vehicles. It has also indicated the likely demand for such vehicles and these estimates seem to be reasonable. It should also be noted that one of the major requirements for such vehicles is for defence and border organisations. The special purpose vehicles which will be developed on the basis of the 4×4 chassis would also be increasingly in demand for various purposes and would add to efficiency on the one side and savings of foreign exchange on the other. The Company is also thinking of export markets for these vehicles. An important argument in favour of the Company in this respect is that the Company has carried out a great deal of Research and Development work for these vehicles and this must be encouraged and supported. There is little doubt therefore that this marginal addition at Jamshedpur is quite justified.
- (2.05) The question which needs to be examined in more detail is regarding the proposal to create additional capacity through a new unit at Poona for the production of 9,000 vehicles. Three questions are involved here: (i) whether such a new capacity needs to be created; (ii) whether this capacity needs to be created immediately or after a gap of time; and (iii) whether

the capacity to be created should be permitted to TELCO or other existing units, or whether we should prefer new companies unconnected with the existing manufacturers to create such capacity.

Under utilisation of Existing capacity

(2.06) In this connection, we cannot ignore the fact that two producers of commercial vehicles, viz., Premier Automobiles and Hindustan Motors, are not able to utilise their installed capacity fully (See Table II.1). While the unutilised capacity is not very large in the case of premier, in the case of Hindustan, it is astoundingly large. Whether we take the capacity of Hindustan Motors for the production of commercial vehicles to be 5,000 vehicles as the Company has recently claimed before the Supreme Court, or 10,000 vehicles as indicated by the Car Prices Enquiry Commission or 15,000 vehicles as the Company has stated in its correspondence with our Commission, the actual production is pitifully small in any case and shows a sizeable unutilised capacity. This capacity represents a very large amount of capital resources including foreign exchange. It cannot further be ignored that this unit is located in West Bengal which is one of the areas which needs special attention from the point of view of increasing economic activity so as to create more employment. One pertinent question therefore arises—why should the creation of additional capacity in the industry not be postponed a little so that, in the meanwhile, the existing production capacity in the country would be more effectively utilised? To some extent, both Premier and Hindustan have hinted at this possibility in their communications to the Commission (x) though neither appeared before the Commission at the public hearing regarding this case.

Why Not Wait

- (2.07) One argument against any such approach would be that it would be unfair to the consumer. The applicant campany has furnished certain details of a marketing survey conducted by them which concluded that the Tata truck enjoyed an overwhelming first preference "not only for its excellent quality in relation to price, but also for its after-sales service, and not the least for its very good resale value". It has also generally been known that many would be owners of commercial vehicles are ready to wait for Tata or Ashok Leyland Vehicles even though the vehicles produced by Premier or Hindustan may be more easily available. Our enquiries from various large operators of commercial vehicles including governmental organisations showed that for many purposes the Tata vehicles (and Ashok Leyland vehicles) were preferred to the others available in the market. There is no doubt therefore that it would be going in the face of such strong consumer preference if TELCO's expansion is held up till the demand for the vehicles produced by Premier and especially Hindustan picks up.
- (2.08) There would be equally weighty arguments against this approach from other points of view. The applicant Company is proposing the production of a large vehicle at its proposed Poona plant. It has provided cogent reasons to suggest that, with the increasing development of road transport in the country and the construction of better roads, there is bound to be a shift in the demand in favour of the 10-ton truck. At present the only producer of the heavier truck in India is Ashok Leyland. It should be noted that Ashok Leyland, which has also been recently permitted to expand its capacity has indicated some resistance (*) to the idea that TELCO should be permitted to build up capacity for a heavy vehicle. It has been stated by them that the demand for such vehicles is not likely to exceed 2,000 per year by the end of the Fourth Plan. It has therefore been suggested that TELCO's expansion in the field should be limited to 1,000 vehicles per year. The Company has not provided any clear supporting evidence for this suggestion. TELCO itself has said that it is proposing to keep the new capacity flexible as between medium and heavy vehicles though it would prefer to produce the heavy vehicles for which the new plant would be specially equipped.
- (2.09) It should also be observed that the vehicles produced by TELCO appear to satisfy the requirements of defence organisations which have shown a significant preference good for these vehicles. TELCO's record in export has also been good and this is specially related to its approach to quality control. All these factors should be taken into account, and given considerable weight. A further important point is that the applicant Company proposes to produce 3,000 off-highway vehicles as a part of its expansion programme. Production of these vehicles has been substantially developed as a part of the R & D effort of the Company and it has provided enough information to suggest that these vehicles would be of considerable use to meet the increasing requirements of defence, border road organisation, project construction requirements, and also the demand for

[†]Report of the Car Prices Inquiry Commission (New Delhi, 1971). pp. 115-116.

^(*) See Main Report Para P-10.

special vehicles such as tipplers, dumpers and coal carriers. It also appears likely that there is a good possibility of exporting such vehicles. This is also a natural and appropriate extension of the Company's production activities already established at Jamshedpur and it does not appear that any other existing or would be producer is in a position to satisfy this specialised demand in any significant way.

- (2.10) The last two points bring us to the special characteristics of TELCO's technical and management competence. It has already been indicated that the applicant Company has been one of the few in the country which planned its own technological growth in such a way that it was ready to end its foreign collaboration agreement at the end of the initial period for which the agreement had been sanctioned. Its R & D expenditure has been markedly high and effective. It has adopted an approach of stict quality control both regarding its own shop produced items and bought out items. This has enabled it to maintain a higher quality of production which is the basis for the consumer preference for its vehicles. At the same time, many ancillary producers certify to the fact that TELCO has assisted them to improve the quality of their production while, at the same time, refusing to accept sub-standard items. This has helped the more responsible ancillary producers to improve the quality of their production and even to explore export markets. The Company has also from the very beginning given considerable attention to regular programmes of training for meeting its personnel requirements both on the technological and managerial sides. The contribution of this to the high quality of the Company's products and also the good morale that one finds among the skilled workers and technical staff cannot be overlooked. This is one of the main aspects of the growth potential that the Company has created.
- (2.11) It should also be recorded that the number of complaints that we received from consumers was small in the case of the applicant Company and, on the other side we received many reports praising it. The Company has also not over-exploited its preferred position in the market for unduly raising prices and making extra large profits. Its financial policy has been prudent and dividends have been kept at a steady and reasonable level. Though one may have doubts about certain aspects of its financial management—and I shall mention them later in my comments on the Scheme of Finance—there is no evidence to doubt the general conclusion that the Company has behaved in a responsible way towards its consumers, employees and the country.
- (2.12) In the face of such a record, it may well be asked: if the expansion of such a company is held up till others, who have a worse record in one way or the other, pick up, what incentive do we provide for such behavier? If a company with high employee morale and good growth potential has to wait because others are doing badly, would it not create a disincentive not only for them but also generally for good and responsible management? Moreover, a concern that is not continuously expanding, especially are which has built up a growth potential in terms of personnel and R & D effort, would it not face frustration and a loss of good talent if there is no continuing scope for the use of the potential that it has created?

Economic Size

(2.13) An important consideration in this context is that even though TELCO is the largest producer of commercial vehicles of India, it is a pigmy as compared to the giants of the world automotive industry. While a size of 20000 to 40000 units is considered the minimum optimal† for medium to heavy commercial vehicles, the better known and efficient units in the developed countries are very much larger. (See Tables II.2 & II.3). As this is an industry where R & D and related matters have a major role to play, larger units have to be thought of for economical and efficient vehicle manufacture in India. The

^{*}See Table II.6 re: R&D expenditure. This shows that among the four producers of commercial vehicles, only the R&D expenditure of Hindustan Motors as a proportion of total expenditure comes near that of TELCO. But, judging from results, that of TELCO has been more "effective."

[†]High volume, automated techniques are associated with Standard model passenger cars and light truks with interrelated production runs of anywhere between 10,000 and 500,000 a year or more. The sholds for economic scale production drop to from 20,000 to 40,000 on medium-size trucks (3 to 8 tons) and to 5,000 or less more specialised medium and heavy trucks and buses. A medium trucks manufacturer such as Berliet has to offer anywhere from 70 to 200 combinations of engine, transmission, chassis and load-carrying frame to compete in its field. Economies of scale are more pronounced in metal stamping and in the forging or machining of parts where mechanised or automated equipment can be used, than in assembly or finishing operations requiring a minimum of machine or equipment". Baranson, cp. cit., p.24.

ancillary industries should also be in a position to reduce their costs of production as the demad for their products goes up, and especially if the demand from a particular vehicle producer increases because a product of the same specifications will be produced in larger quantities. One may also take note of what in development debate is called the 'Learning Curve'. 'Learning' in the sense of building up technical as well as managerial competence for a new industry is a function of time as well as the scale of operation. It takes time for a new producer in a developing country to get over the learning hump, and he can do it in the case of sophisticated industries only if he is operating on a large enough scale to enable the adoption of specialised expertise and tools of modern management. From this angle, it is important that TELCO should be permitted to expand the size of its Jamshedpur unit to 27000 and, with the setting up of a new unit at Poona with an initial capacity of 9000, set itself on the road to becoming one of the leading producers of commercial vehicles in the world. This is necessary if we wish to exploit the potentialities of this industry not only to meet domestic needs but also for expanding exports.

Hindustan and Premier:

- (2.14) At the same time it would not be appropriate for Government to ignore the fact that large capital resources are at present remaining idle specially in the case of Hindustan Motors. It is true that Hindustan Motors is a private sector concern (just as TELCO is). But the extent of public sector capital involved in Hindustan Motors is quite substantial (See Table II.4). Moreover, in a basic sense, these are all national resources and in the context of planned economic development we can hardly ignore their remaining unutilised while investment of further resources in a competing unit is being considered. More thought therefore needs to be given to this problem of unutilised capacity.
- (2.15) It has not been possible for the Commission to go into the details of the working of the two concerns—Premier and Hindustan—so as to be able to come to any clear conclusions. There is however enough information available to enable us to draw certain tentative hypotheses and suggest to Government the importance of looking into this aspect more closely. Premier Automobiles has indicated that a major reason for its commercial vehicles capacity not being fully utilised was that it has had to rely, under a Government directive, upon M/s. Simpson and Co., Madras, to meet its requirements of diesel engines and the Company finds it difficult to get adequate supplies of these engines. While there may be some validity in this point, it appears that there are more fundamental reasons for the continuance of unutilised capacity. The lack of adequate demand appears to be an important one among them. Similarly, Hindustan Motors have blamed Government's insistence on the use of Perkins engines instead of Bedford engines for the poor consumer appeal of its commercial vehicles. Even regarding the capacity that was sanctioned to them in 1963 for the manufacture of the required engine, their complaint is that they were forced to use certain local fuel injection unsuitable for the engine thus affecting the vehicle's performance. It has therefore been claimed that the idle capacity is due to reasons beyond the Company's control. In this case also, while there is possible some validity in the Company's statement, the conclusions about the management of the Company drawn by various bodies such as the Tariff Commission and the Car Prices Enquiry Commission (*) suggest that there is something much more basically wrong with it and that this is more responsible for idle capacity than other difficulties.
- (2.16) If the hypothesis that the reason for the unutilised capacity in Premier and specially in Hindustan is mainly to be found in the inadequacy of their management has much validity then the question would be whether there is any prospect of the idle capacity being activised through improved management? This becomes of special importance in the context of TELCO's expansion

^{*}See, in this connection, Tariff Commission: Report on the continuance of Protection to the Automobile Industry 1968, Chapter V—Quality, Standards and Research. It has been pointed out there how in these respects Hindustan Motors and Premier Automobiles, specially the former are lagging very much behind. Also, see in this connection Report of the Cars, Prices Inquiry Commission on the Fair selling Price of the Ambassador, Fiat and Standard Herald Passenger Cars, Main Report, 1971, Chapters VI, VII and VIII. The Commission has pointed out that the Pande Committee's conclusion that there was lack of quality consciousness in the management, staff and workers of all the three—Hindustan Premier and Standard, continued to be true at the present time. It also pointed out that Hindustan does not follow any system of regular cost calculation and compilation—and this in spite of the Tariff Commission having adversely commented on this in 1966. Even regarding Hindustan Motors' complaint that the marketability of their vehicles was adversely affected because they had not been permitted to manufacture the more powerfull Bedford diesel engine, the Commission has quoted an executive of the Company to mention permission to manufacture these engines was given as far back as in 1963 and manufacturing of these has begun in 1968. A major point made in the Report is about lack of quality control, both on the part of Hindustan Motors and Premier Automobiles.

application because, as we have indicated above, one of the plus points on TELCO's side is its responsible and dynamic management as well as the technical and managerial potential that has been created on the basis of a well-conceived training programme. If a part of this managerial potential can be injected into the management of the other two producers, this could help improve the utilisation of the resources invested in them. Moreover, as the production capacity in physical terms already exists, activising it should take less time than the creation of new capacity under TELCO's expansion proposal.

- (2.17) The main difficulty in thinking of any such approach would obviously be that all these three are private sector concerns with their own independent Boards of Directors responsible to the respective shareholders. There is no interconnection among the three and actually the three have been managed by three distinct managing agency groups in the past. Even now the management of Hindustan Motors and TELCO largely continues with the same persons who were managing them before the abolition of the Managing Agency in April, 1970.
- (2.18) Looking into the ownership of the equity of the three companies, it appears that public financial institutions hold a significant share in each of them. (See Tables II.5 (i) to (iv). In Hindustan Motors, public financial institutions hold about 21% of ordinary share capital and 77% of the preference share capital; in addition to this, nationalised banks control some 6% of equity—it is not known which part of it is merely pledged with the banks and which is held by the banks in their own investment portfolio. The public financial institutions hold about 25% of the share capital of Premier Automobiles and shares controlled by the nationalised banks constitute about 10%. The public financial institutions' shareholding in TELCO is about 14% and that controlled by nationalised banks about 10%. Thus the public financial institutions, though not controlling the major share, are in a very good position to influence the nature of the management in each case. I am later discussing in this Report the question of the equity structure of TELCO and I am suggesting that it would not be inappropriate for Government to attempt to increase the shareholding of financial institutions in it by a substantial proportion. One advantage of doing so would be that TELCO could then be claimed as much more definitely a national concern, a joint Sector concern, with public institutions having a controlling say than is the case at present. This would make it much easier to use its competence and growth potential specifically for the purpose of ensuring better utilisation of the nation's capital invested in other two concerns. If the public shareholding in Hindustan Motors is not found to be adequate to bring about the required change in its management by injecting in it elements drawn from TELCO so as to improve its operation and utilisation of capacity, Government can even think in terms of using the provisions of the Industries Development and Regulation Act for the purpose. The main point is that TELCO's expansion cannot be justifi

Joint Sector

- (2.19) The approach that is being assumed in making these suggestions is an obvious extension of the 'Joint Sector' concept suggested by the Dutt Committee and broadly endorsed by Government since then. With the very large shareholdings by public financial institutions in such key concerns, it would only be appropriate for these institutions both to safeguard their own investment and in pursuit of overall national policy to help bring about such changes in management as are necessary to improve its basic quality. It has some times been suggested that some an organisation might be developed which would co-ordinate and integrate the function that the shareholding institutions have to perform in respect of the companies in which they hold shares. This may take the form of a holding company for each major area of industrial activity or an overall holding company with divisions for major areas of industrial activity. Whatever the future shape that such an instrument takes, what need to be emphasised for our purpose are two aspects—one positive and one negative. Positively, it is essential that, as the resources of public financial institutions are invested in all these concerns and also because ultimately all these are national resources, when there is a clear case of poor management in some concerns which can be attempted to be remedied by using the talent available in others, a way must be found to do this. At the same time, a certain degree of rivalry and competition among these concerns must be maintained so as to help efficient and consumer-oriented operation. This may be considered a little like balancing while rope-walking; but this is inevitable in such circumstances.
- (2.20) It may be said that these ideas and suggestions are beyond the scope of the present enquiry. I do not think so. It is not possible to think of the expansion of one producer in isolation when one is dealing with an oligopolistic situation. This becomes even more important in the conext of a planned economy in a poor country were capital resources are scarce and where

therefore the maximum effort is necessary to ensure that they are not wasted. Even in view of the considerations indicated in Section 28(a), (c) and (f) of the MRTP Act, these aspects cannot be over-looked in an enquiry of this kind. It is a pity that because of various handicaps, it had not been possible to go more thoroughly into this aspect of the question and to make more specific proposals. I however consider it can important part of the enquiry entrusted to the Commission that the Government's attention should be drawn to this aspect of the problem and certain suggestions made which can be further explored in the light of the overall approach that the Government might decide to adopt.

Both Steps Simultaneous

- (2.21) My plea therefore is that the steps to activise the unutilised capacity specially of Hindustan Motors should come side by side with the approval of the proposal to expand TELCO's capacity. For the reasons I have indicated, TELCO's managerial and technical competence should, if necessary, be drawn upon for changing and reorientating the management of Premier and Hindustan, specially the latter. This will become much easier if TELCO not only cases to be a part of the Tata Group of companies (if it is one at the moment) but also positively becomes a 'joint sector' concern. This aspect of the matter is further examined later in this Report.
- (2.22) It is not necessary that TELCO's expansion must wait till steps are taken to activise the idle capacity of Hindustan Motor. Much further preparation is necessary before the expansion goes through and further delay and uncertainty would only retard a desirable expansion. At the same time, the problem of idle capacity cannot be left unsolved for long especially in the context of the unit being located in West Bengal. This lends urgency to the steps that I am recommending to make TELCO a genuinely national or Joint Sector concern. Only then can it be effectively used for helping change the management of Hindustan Motors. Both these developments need to be pursued side by side.

TABLE II.1

Premier Automobiles

Hindustan Motors Ltd.

I	Licensed	Installed		Producti	on पेव जुड	ाते		,		
			Diesel	Petrol	Total		sed Installapacities	ed Diesel	Petrol	Tota
1960-61	7500	7500	4808	1376	6184	6000	6000	6412	600	7012
1961-62	,,	"	4140	998	5138	,,	"	3400	600	4000
1962-63	"	"	4158	1622	5780	,,	33	4460	540	5000
1963-64	15000	7500	3713	3194	6907	15000	10500	4613	804	5417
1964-65	**	,,	5732	4471	10203	"	"	4637	1680	5717
1965-66	,,	,,	4893	1833	6726	"	33 ,	2932	1068	4000
1966-67	"	5000	2946	819	3765	"	33	2411	1252	3663
1967-68	93	5000	2024	853	2877	,,	,,	721	570	1291
1968-69	"	5000	2608	1186	379 4	"	,,	1546	520	2066
1969-70	"	5000	2528	1429	3957	,,	"	1213	312	1525

^{*}Includes army power wagons, which were only assembled by the Co.

TABLE II.1

Ashok Leyland Ltd.

		Licensed	Installed	Product- ion	Total	Licensed	Installed	Pı	oduction	
			•	Goods/ Passen- ger				Goods	Passen- ger	Total
1960-61 .	-	24000	12000	10435	••	6600	6400	791	1291	2082
1961-62 .		"	12000	12100		6600	6400	986	1703	2649
1962-63 .		,,	12000	12200		6400	6400	1195	1321	2516
1963-64 .		,,	,,	12800		6600	6400	1564	1681	3245
1964-65 .		,,	16800 (18000 Since Jan. 65)	16025	• •	8600	7000	1866	1929	3795
1965-66 .	•	,,	21000	17500		"	,,	1890	2098	3988
1966-67 .	•	, ,,	24000 (Since Nov. 65)	19135			,,	2109	1978	4087
1967-68 .		,,	,,	19540		,,	,,	1651	2571	4222
1968-69 .		,,	"	22416		₩,	,,	1974	2453	2453
1969-70 .		,, .	,,	20306	7/14/4	,,	,,	2336	2551	4887
1970-71 .	•	,,	"	25061		72.0	• ••	2118	2739	4 857

TABLE II.2

World Automotive Production by Company Size, 1965

Total Pr (millions		tion C	Outpu	t				No. of Firms	Total Output (millions)	Present World Production	Average Volume on per Firm (to nearest thousand)
Trucks and Bu	ses										
0.5-0.8.		•	•			•		2	1.3	27.7	650,000
0.1-0.2				•	•	٠		10	1.5	31.9	150,000
0.0130.1						•		32	1.2	25.5	38,000
Below 13,000				•	•	•		206*	0.7	14.9	3,000
Sub-totals and	avera	ıges		•	•		•	250	4.7	100.0	19,000

^{*}Estimated from source material available.

Taken from 'Automotive Industries in Developing Countries, (IBRD)-BY Jack Baranson, P.88 (ANNEX Table 4).

TABLE II.3

World Automotive Production by Country and Leading Firms, 1965— Trucks

USA		Japan	UK,	Germany	Brazil		
(1) General Motor 757	,000	Toyota 240,900	(5) BMC 183,200	(13) Volkswagen 94,700	(32) Willys 23,000		
(2) Ford Motors 547	,000	Toyo Kogge 192,200	(10) Bedford (Vauxhall) 112,400	Benz	Spain (35) Citroen 20,500		
(7) International	,000	Nissam 175,700	·				
(8) Chrysler Corps	n. (9)	Diahatsu 137,500	(14) Ford 85,300	(28) Ford 26,800			
(12) Kaiser		Mitsubishi 110,500	(26) Rootes 38,200				
(31) White 25	,000 ,000	57,700	(29) Leyland 25,000	Hanomag	Argentina (37) IKA		
(36) Mack		Fugi 54,600	France	Canada	18,600		
Italy	•	Honda 46,700	(15) Citroen 85,000	(17) General Motor 68,000	India		
(24) Fiat	(22)) Prince	(16) Renault	(23) Ford	(39) Tata Mercedes		
41	-	44,600 Suzuki	72,000 (33) Peugeot	43,000	17,000		
Australia	•	. 40,000	23,000	(38) Chrysler 17,000			
	(27)) Aichi 33,400	(41) Berliet 15,500				
(34) General Motors							
22	2,600 (31) Hino 24,800					
Sweden							
(43) Volve	5,000				, '		

Taken from 'Automotive Industries in Developing Countries (IBRD), by Jack Barason, P.89-(Table Annex. 5).

Note: Wo ridgerking in group in parentheses.

TABLE II.4

Hindustan Motors Ltd.

- I. Total fixed assets (WDV) as on 31-3-1970—Rs. 4470.64 lakhs
- II. Extent of Public Sector Involvement:

(Rupees lakhs)

			in Equity Shares	in Preference Shares	in the form of Loans etc	
(a)	Indian		Rs.	Rs.	Rs.	Rs.
• •	Bank & financial Investors		295.70	192.00	1335.92	1823.62
	% to I		6.61	4.29	29.88	40.78
(b)	Foreign					
٠.,	AID and CDFC	•		* *••	1990.77	1990.77
	% of (b) to I		2	• •	44.53	44.53
(c)	Total of (a+b)		295.70	192.00	3326.69	3814.39
	% of (c) to I	Ball.	6.61	4.29	74.41	85.31

TABLE II.5

Share Holdings by Public Financial Institutions etc.

(i) Premier Automobiles

Out of total paid-up share capital of Rs. 748.39 lacs representing 7,56,652 Equity shares of Rs. 100/- each 34.5% has been held by Financial Institutions such as L.I.C. Unit Trust of India, I.F.C., I.C.I.C.I., Nationalised Banks, Insurance Companies etc., as indicated below:

								No. of Shares	%age to total share capital	
(i)	L.I.C.	•			•			1,02,424	13.68	
(ii)	U.T.I.	•		•				10,763	1.44	
(iii)	I.F.C.			•	•			21,380	2.86	
(iv)	I.C.I.C.I.		•	•		•	•	15,656	2.09	
(v)	Banks (na	tionali	ised)	•	•	•	•	75,289	10.06	
(vi)	Insurance	Cos.	(Man	aged	by G	overn	ment)	32,819	4.38	
		Тот	AL.	•		•	-	2,58,331	34.51	

350

(ii) M/s. Hindustan Motors Ltd.

(As on 31-5-1970)

						(As o	n 31-5-1970
				Equ	ity Shares	Prefere	nce Shares
-				No.	Percentage	No.	Percentage
1.	Life Insurance Corporation			19,74,400	18.0	75,000	30.0
2.	Unit Trust of India			3,26,215	2.9	64,29	5 25.5
3.	I.F.C					18,434	1 7.4
4.	I.C.I.C.I					34,836	
5.	Nationalised Banks	•		6,56,991	6.0	• •	
6.				29,57,606	26.9	1,92,565	5 77.0
7.	Total Subscribed capital			101,71,007	100	2,50,000) 100
Ţ,	Jnder Clause 79 of the Company's Articles of A	ssocia	tion, fo	or every 50 ord	inary shares the	ere is one vo	ote. Preference
8115	tres do not carry voting rights.	A)	i) <i>TE</i>	ELCO			
					н	olding as	on 17-8-197
		168	10	929		•	Ordinary
Sha	ares held by:—	Ü	A THE	IY			
(1)	•	L		77			
	(a) I.D.B.I	200		M212			
	(b) I.F.C.I	Tier.		255			••
	(c) I.C.I.C.I	480		2000	• , •		1,754
	(d) L.I.C. and Subsidiaries	44:	यमव	키식님			1,21,068
	(e) Unit Trust of India	•	•				37,225
(2)	Nationalised Insurance Companies .				• , •		46,484
(3)	Nationalised Banks	•	•	• •			1,37,710
		(iv)	TISC	 20			
					Holdings	as on 9	th July, 71
Sha	res held by: (a) Financial Institutions:						
	(a) Financial Institutions:			Pref	S.P.	'A' S.	P. Ordy.
	1. I.D.B.I						
	2. I.F.C.I	•			• •	••	• •
	3. I.C.I.C.I				• •	••	••
	4. L.I.C. and Subsidiaries .			16,686	59,912	87,184	9,18,425
	5. U.T.I			1,544	33,377	23,130	4,08,926
	(b) Nationalised Insurance Companie	3	•	15	11,751	5,682	2,34,089
	(c) Nationalised Banks	•	•	1,603	28,421	21,939	4,03,813
			-	19,848	1,33,461	1,37,935	19,65,253

Note: 'A' S. Preference Shares have no voting rights.

Expenditure on R & D and Total Current Expenditure

(Rs. in lakhs*)

		Pre	mier Autom	obiles	Asho	k Leyland	ļ	Hind. Motors Ltd.		
		R &	D Total	%	R & D	Total	%	R & D	Total	%
1960-61	•		••		• •	••.	••	• •	••	••
1961-62	•	• •	• •		2.00			• •	••	
1962-63		3.86	• •		2.25	• •,	• •	7.94	• •	••
1963-64		4.13	••		2.50	••	••	12.33	••	••
1964-65	•	5.78	3,295.05	0.17	2.75	1984	0.14	14.77	3,546	0.42
1965-66	•	5.22	2,714.67	0.19	3.00	2125	0.14	22.46	3,402	0.66
1966-67		7.18	2,646.20	0.27	3.00	2618	0.11	31.42	4,133	0.76
1967-68		11.80	2,703.56	0.44	3.50	2330	0.15	29.37	3,711	0.79
1968-69	•	12.69	3,035.25	0.41	6.00	2659	0.23	28.92	4,288	0.68
1969-70		10.65	3,272.92	0.33	5.25	3093	0.17	27.22	4,581	0.59
1970-71		10.14	• •		8.00	1	••	••	••	••
				(40			C	Rs. in la	akhs*)
					सन्यमेव ज	यते	TE	LCO		······································
					R&	D Expen- liture	,	Total		%
1960-61				•	7	.92		••		••
1961-62				•	. 7	.92	3	626		0.22
1962-63				•	13	.70	3	886		0.35
1963-64				•	15	.21	4	558		0.33
1964-65		• •		•	18	.40	6	897		0.27
1965-66				•	21	.86	7:	207		0.30
1966-67				•	23	.50	8	073		0.29
1967-68					27	.05	8	720		0.31
1968-69				•	59	.30	9	645		0.62
1969-70				•	. 91	.34	9:	279		0.98
1970-71					מפ	. 6 6	10	533		0.70

^{*}Bacludes expenditure on capital equipment.

CHAPTER III

TATA INTERCONNECTION

'Tata House' Vs Interconnection

- (3.01) The reason why, in my view, the question regarding the applicant Company being interconnected with other Tata Companies and especially with TISCO assumes importance has already been indicated. The Industrial Licensing Policy Enquiry Committee had included the House of Tatas in its Lits of Larger Industrial Houses and had included a number of companies, including TELCO and TISCO, as belonging to this House. When the Government of India, in February, 1970, announced its new industrial licensing policy, a specific reference was made in it to the lists of companies included by the Dutt Committee under different industrial houses. The Government had then pointed out that any company which wanted to claim that it did not belong to a particular industrial house and wanted its name to be excluded from the Dutt Committee list should apply to Government for the removal of its name from the list. One of the questions which the Commission put to TELCO and also to other Tata companies was whether, in the period since Febury 1970, they had made any such representation to Government. Apparently most of these companies did not consider it worthwhile or necessary to make any such application in spite of the fact that there were definite limitations regarding the future role that they could play if they were treated as belonging to a larger industrial house. Even as recently as after the public hearing held by the Commission regarding the TELCO case, some newspapers had reported that a statement was made on behalf of TELCO that it did not belong to the Tata group of companies. The Vice-Chairman of the Company promptly issued a denial of this Press report stating that he had made no such statement. In its reply to the Commission, TELCO has stated that as the Company did not want to apply for a licence for any industry outside the core sector, no occasion arose for it to make any application for its exclusion from the Tata House list.
- (3.02) At the same time, the Company has unequivocally stated that it is not interconnected with any other company in terms of the MRTP Act. A similar statement has been made by TISCO and many other Tata companies to whom a questionnaire had been addressed by the Commission. The implication of these answers appears to be that while the inclusion of these companies as belonging to the Larger House of Tatas might have been justified according to the criteria adopted by the Dutt Committee, the criteria laid down for defining the interconnected concerns under the MRTP Act are quite different and the claim of the companies was and is that they are not interconnected in that sense, especially in view of the abolition of the managing agency system from April, 1970.

Structure of Tata Companies

(3.03) There is no doubt that the question of examining whether certain companies are interconnected in terms of the MRTP Act has become a much more complex one after the abolition of the managing agency. TELCO was being managed by Tata Industries (P) Ltd. prior to April, 1970, in the capacity of Managing Agents. The other companies that were under the same Managing Agents were TISCO, Tata Chemicals, Tata Oil Mills, Swadeshi Mills and Tata Mills. Tata Industries were also 'Secretaries and Treasurers' for Ahmedabad Advance Mills and Indian Hotels.

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- (3.04) It should be noted that Tata Industries (P) Ltd. itself was a subsidiary of Tata Sons (P) Ltd. The other subsidiaries of Tata Sons are Tata Hydro Electric Agencies, Seassoon J David, Tata Aircraft, Tata International AG and Tata Ag. Tata Sons set up a division called Tata Consultancy Services in April, 1968.
- (3.05) It should also be noted that a company called Tata Services Ltd. has been in existence since 1957, mainly for the purpose of providing facilities and services of different kinds to the Tata group, this latter being defined in the Memorandum of Association as follows:
- "(B) "The Tata Group" shall mean and include the following Companies, trusts, bodies corporate, associations, societies or organisations or any one or more of them:—
 - (a) Any Company now or hereafter managed either as Managing Agents or as Secretaries and Treasurers, by Tata Sons (P) Ltd., Tata Industries Private Limited, Tata Hydro-Electric Agents Private Limited, The Investment Corporation of India Limited, Investa Industrial Corporation Ltd., or the successors and assigns of any of the above companies or by

any subsidiary company of Tata Sons Private Limited (including a subsidiary company of any such subsidiary).

- (b) Tata Sons Private Limited.
- (c) Tata Industries Private Limited.
- (d) Tata Hydro-Electrie Agencies Private Ltd.
- (e) The Investment Corporation of India Limited.
- (f) Investa Industrial Corporation Ltd.
- (g) Any company which is the successor in business or assign of any company mentioned in (a), (b), (c), (d), (e) or (f) of this sub-clause.
- (h) Any Trust founded by or in the memory of Nusserwanji Ruttonji Tata or any lineal descendant of his or by or in the memory of any wife or widow of the said Nusserwanji Ruttonji Tata or of such lineal descendant and includes the Trustees of any such Trust.
- (i) Any Trust founded by or in the memory of Ratanji Dadabhoy Tata or any lineal descendant of his.
- (j) Any company, body corporate, trust, association, society or organisation which shall be considered by this company as allied or associated with any one of the companies or trusts mentioned in (a), (b), (c), (d), (e), (f), (g), (h) or (i) of this sub-clause."

It should also be noted that the following companies hold shares in Tata Services Ltd:-

- 1. The Tata Iron & Steel Co. Ltd.
- 2. Tata Engg. & Locomotive Co. Ltd.
- 3. The Tata Oil Mills Co. Ltd.
- 4. Tata Chemicals Ltd.
- 5. Tata Hydro Electric Power Supply Co. Ltd.
- 6. Andhra Valley Power Supply Co. Ltd.
- 7. Tata Power Co Ltd.
- 8. Investment Corporation of India Ltd.
- 9. Ahmedabad Advance Mills Ltd.
- 10. Swadeshi Mills Co. Ltd.
- 11. Tata Mills Ltd.
- 12. Indian Hotels Co. Ltd.
- 13. The New-India Assurance Co. Ltd.
- 14. Voltas Ltd.
- 15. Indian Tube Co. Ltd.
- 16. Tata Sons (P) Ltd.
- (3.06) It would be instructive to see what exactly happend regarding the management of the various Tata companies at the time of the abolition, the of the managing agency. Some months before the abolition, the matter cameup in various Board meetings and it was decided that the most suitable form of management would be management by Vice-Chairman/Managing Director assisted by wholetime Directors wherever necessary.* It is significant to note that the TELCO Board appointed a Committee consisting of the Chairman, Shri J.R.D. Tata, and the Vice-Chairman, Shri S. Moolgaokar, to—
 - "(a) allocate duties and powers to be performed and exercised by the Managing Director and the other wholetime Directors and to give directions to carry this into effect.
 - "(b) supervise and control on behalf of the Board the exercise of such duties and powers by the Managing and wholetime Directors.
 - "(c) give directions in regard to the business and affairs of the Company not covered by the duties and authorities conferred on the Managing and wholetime Directors as aforesaid and

^{*}Por further details re: the examples given, see Appendix to this Chapter.

"(d) generally, subject to further direction of the Board, exercise such other powers and duties as were previously exercised by the Managing Agents."

The Board of TISCO similarly decided that a Committee consisting of the Chairman Shri J.R.D. Tata, and the Vice-Chairman, Shri S. Moolgaokar, be appointed to—

- "(a) allocate duties and powers to be performed and exercised by the Managing Director and the other wholetime Directors and to give directions to carry this into effect,
- "(b) supervise and control on behalf of the Board the exercise of such duties and powers by the Managing and wholetime Directors,
- "(c) give directions in regard to the business and affairs of the company not covered by the duties and authorities conferred on the Managing and whole time Directors as aforesaid, and
- "(d) generally, subject to further direction of the Board, exercise such other powers and duties as were previously exercised by the Managing Agents."

Thus the same two persons were authorised to carry out the same functions by the two Boards. Similar examples can be given from other Tata companies though instead of Shri Moolgaokar, some other persons were appointed and in some cases, Shri J.R.D. Tata was not there but Shri Naval Tata or another Tata Sons or Tata Industries Director.

- The pattern adopted by all the companies was that the Directors of the former managing agents who were serving on the Boards of Directors of the managed companies were to be coopted as directors and, further, some of them together with some of the principal executives were to be appointed as Managing Directors or wholetime Directors. The Managing Agents were requested to make the services of such persons available to the Company as managing/wholetime Directors. Thus, in the case of TELCO, the Board decided to request the Managing Agents to make available to the Company the services of Shri Moolgaokar and Shri Tobaccowala as wholetime Directors. This pattern has been repeated in most other companies under the Managing Agents. The Commission asked for the correspondence entered into between the applicant Company and the erstwhile Managing Agency company regarding this request. The Company's reply states that "no correspondence was exchanged on this subject between the Company, the managing agents and the individuals concerned". Thus persons who were in the wholetime employment of Tata Industries (P) Ltd. became available as wholetime employees to TELCO without any commission, correspondence or formal agreement between the two companies regarding the matter. That there is no (what one may in Government terminology call) 'break in service' is indicated by the fact that the terms of appointment of the Vice-Chairman and Managing Director include one item under which the Company is to set aside a certain amount which may either be utilised by the Company or "shall be paid over to Tata Sons (P) Ltd. for the provision of retiring benefits for the Vice-Chairman and the Managing Directors." Shri Moolgaokar, even though now he is a wholetime Director of TELCO, continue to be very active in working for the Tata Group as a whole. This is indicated by the fact that he continues to be a Director and Vice-Chairman of TISCO and enjoys important delegated powers in it. Similarly, he is Chairman of Tata Exports with important delegated powers. He is also Vice-Chairman of Tata Industries and Director of Tata Sons, Shri J.R.D. Tata continues to be the Chairman of Tata Sons (P) Ltd., Tata Industries (P) Ltd., TISCO, TELCO, Tata Chemicals, Tata Oil Mills and Indian Hotels Ltd. just as before the abolition of the managing agency and enjoys certain key powers in them.
- (3.09) Frior to the abolition of the managing agency, Tata Industries (P) Ltd. used to guarantee bank loans and borrowings of their erstwhile managed companies. This used to be a part of the service provided by the Company as managing agents. Since April, 1970, this service is being provided by Tata Industries and Tata Sons on a contractual basis. It should also be noted that this service is being provided by them only to the companies which have been included by the Dutt Committee in the Tata House.
- (3.10) Tata Sons and their division—Tata Consultancy Services—provide many important services and most of the customers of these services are Tata Companies. This can be easily seen from the fact that for the year 1970-71, except for the computer centre, the income obtained by Tata Consultancy Services was mainly from what may be called Tata companies. Similar is the case about Tata Economic Consultancy Services in the year 1970-71. A very large part of the income (Rs. 1,00,000 out of Rs. 182,700) is obtained from one Tata Company, viz., TISCO.

(3.11) Tata Inc., New York, and Tata Ltd., London, act as purchasing agents of Tata companies. Tata Exports Ltd. is a company specialising in export trade and handles the export business of Tata companies. While the services of these companies are open to other parties, the bulk of their customers and the principal sources of their incomes are to be found from among the Tata companies as listed in the Dutt Committee Report.

Role of Tata Services Ltd.

(3.12) A key role in the coordinated management of certain important aspects of what may be called the Tata Companies is played by Tata Services (P) Ltd. It should be noted that the only companies which are shareholders of the Tata Services (P) Ltd. are companies belonging to the Tata House and the Board of Directors consists of representatives of "the more importants Tata companies." This was stated by the Secretary of TELCO at the public hearing. The following services are provided by Tata Services Limited to various Tata Companies:

Personnel

Staff Recruitment

Managing Training

Public Relations

Legal Conselling

Economic & Statistics

Medical and Health

Industrial Health

Housing for Staff

Canteen and Retail Store and Staff

Industrial Relations & Labour Information

Internal Telephones, Telex and Teleprinter.

Customs procedures

Executive amtations transport

Microfilming and Photo-copying

Watch and Ward

Centralised Share Department

New Development Section

Staff Sports Club

Bungalow and Office at Delhi.

It will be seen that some of these services are in very critical areas of management, such as personnel coordination, labour relations, and public relations. As a matter of fact, it appears that Tata Services Operates as a kind of common services centre provided by the companies belonging to the Tata House for obtaining certain key services. The services are provided on the basis of no-profit-no-loss. From the records examined by the Commission, it is apparent that the expenses incurred by Tata Services are distributed among different companies according to the general estimate of how much of each service has been rendered to each company. While this may not be difficult when it is a matter of distributing expenses incurred on telephones or on setting up an exhibition, obviously this is not an easy matter when it comes to services such as public relations, personnel coordination, Labour Relations Bureau, Department of Economics and Statistics and the Delhi office.

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(3.13) In the last case, Shri S.A. Sabavala who is a Director of Tata Industries (P) Ltd. and some other persons working with him act as representatives of many Tata Companies in Delhi an therefore 90% of their salaries are met by Tata Services (P) Ltd. though they are not its employees

Powers of attorney in important matters are delegated to them by a number of Tata companies including TELCO and TISCO. These include powers to represent the companies before any Government agency in any matters concerning the companies. As regards the sharing of expenses, the Secretary of TELCO explained at the public hearing that the composition of the Board of Directors of Tata Services enables the Member-companies to make sure that the interests of the participant companies do not suffer when the shares of different companies in the common expenses are decided. However, not all the companies which are participating in the services are represented on the Board. In spite of this, the decisions regarding the allocation are made by the Tata Services and accepted by all even though no clear cut basis for such allocation is laid down or indicated. There is nothing wrong with this as among a group of sister companies working in coordination and under a common control and management. What is not sustainable is the argument that in spite of the companies being inter-meshed in these various ways, they are not interconnected and are independant in terms of the MRTP Act.

Controlling and Coordinating Links

- (3.14) When it comes to providing data regarding actual decision making and the manner in which a small group of persons which may include Sarvashri J.R.D. Tata, N.H. Tata and S. Moolgaokar through Tata Sons (P) Ltd. and Tata Industries (P) Ltd. control various companies including TISCO and TELCO, this kind of proof is always difficult to provide. The decision taken by my colleagues on the Commission not to pursue the enquiry further and to prohibit me from using the machinery of the Commission for its pursuit made the already difficult task impossible. Some of the points to which we had obtained clues could only have been pursued by further interrogatories and by summoning key individuals like Shri J.R.D. Tata and Shri Sabavala for individual evidence. This suggestion was also turned down the majority in the Commission. All I can therefore do is to point out certain clues which may be followed up by Government if they are so inclined.
- (3.15) The institutional devices through which common decision-making is attempted are: (i) A Joint Committee of management and staff—at Bombay House, and (ii) a Coordination Committee of Directors of Tata Companies In answer to the Commission, the Company has stated that the Committee consists of six representatives of the staff and six representatives of the management of Tata companies in Bombay. Obviously therefore the Tata companies are treated as a combined group for the purpose of discussion of important matters affecting staff relations. The main function of the Committee is said to be to promote mutual understanding and to improve the conditions of service of the employees. During the year 1970-71, the Committee is said to have resolved a number of issues such as revision of dearness allowance payable to the staff, extending the salary grades and revision in the rates of overtime payments. At the same time, the Company has also said that though the decision to pay increased salaries and dearness allowances to headquarters staff was made in pursuance of the recommendations of this Joint Committee, "the decision was not taken in concert with other companies; each company made its decision".
- (3.16) Regarding the Coordination Committee, it has been said that Shri J.R.D. Tata, Shri S. Moolgaokar and various Managing Directors and wholetime directors of various companies meet periodically to discuss matters of common interest and they are called the Directors Coordination Committee. "This Committee has no composition or constitution and no functions, no duties, no status or existence in law." While we have no reason to disbelieve what has been so emphatically stated by the Company, it would have been useful to ascertain by means of interrogation how exactly the Committee functioned during the year 1970-71, what points were discussed, who were the persons present and how these decisions were followed up. That would have provided data to indicate whether this is a major instrument through which decisions relating to important matters affecting Tata companies are decided in common by a small group of persons most of whom are on the Board of Directors of Tata Sons (P) Ltd. and Tata Industries (P) Ltd. However, the majority decision has precluded this. From the data that we obtained, a few examples of common and coordinated decision-making may be cited. (Further details are given in the Appendix).
- (3.17) Early in 1971, an exhibition was held in Delhi on behalf of a large number of Tata companies. This was organised by Tata Services. Neither in the record of Tata Services nor in that of any participating company have we been able to locate any clear indication as to when the decision to hold the exhibition was taken. There is no correspondence between the participating companies and Tata Services Ltd. such as would normally be found among independent contracting parties. It has been explained to us that the idea of holding such an exhibition was originated by Shri S.A. Sabavala. It was discussed by the Managing Directors of some of the companies who agreed that such an exhibition would serve a useful purpose. They took the decision to participate in the exhibition without a Board Resolution.

"After the proposal was thus approved by the Directors of the different companies. Tata Services was entrusted with the task of organising the exhibition."

This was the explanation given by the counsel of some of these companies to the Commission. It is curious that a major public relations decision like this is taken on behalf of a number of companies, and in each case it is taken by oral discussion but, it is claimed, independently of each other. There is no formal request for participation and no formal acceptance. Tata Services Ltd. was "entrusted" with the task of organising the exhibition—by whom? Presumably by the Managing Directors of different companies acting not in concert but independently of each other. One can provide other such examples. Shri J.R.D. Tata's foreign tours are used by companies belonging to the Group for their specific purposes. Naturally they share the expenses of the trip. There can be no objection to various companies using the services of their Chairman. What cannot but be pointed out is that the Chairman then is shown to be an active Chairman who acts as common co-ordinating and controlling link among them.

- (3.18) A number of good causes are supported by the Tata Group of Companies, Going through the records of different companies, we came across a few recent examples. Even in the period, after the abolition of the managing agency, one finds that different boards, including that of TELCO decided to make contributions for the following purposes:
 - 1. Assocham Golden Jubilee Fund
 - 2. Bihar Gram Swaraj Fund
 - 3. Gujarat Flood Relief Fund
 - 4. Family Planning Foundation
 - 5. Economic Research Centre, New Delhi
 - 6. Bangla Desh Relief Fund.
- (3.19) In the concerned records one finds an indication that it had been decided that a particular amount or proportion would be the share of the particular company in this common endeavour. Presumably, matters like this are sorted out in common by some coordinating organisation which exercises control over the various companies. Another example is the decision taken by Tata Industries (P) Ltd. Board about providing suitable minimum remuneration for the Managing Directors and the answer to be given to Government re: the justification for distributing a profit-share among Directors. These matters affecting the arrangements to be made after the abolition of the Managing Agency were decided for all companies by the Tata Industries Board and all companies were to reply on the lines decided.
- (3.20) During the course of the enquiry, considerable surprise if not indignation has been expressed at such details being scrutinised and pursued by the Commission. What is wrong with the Tata companies organising a common exhibition, making a co-operative endeavour to serve noble causes, or even providing common services for the benefit of all the companies, it is asked. One can only point out that what was being collected through such interrogations and investigations was the clues to common control and management of these companies. There was nothing with the exhibition; I myself enjoyed visiting it. Tata companies have served many noble causes in the past and have been one of the few business groups which have shown a sense of social responsibility. It is also natural that the gap created by the abolition of the managing agency system should be attempted to be filled through creating new devices or through more intensive and systematic use of different devices already existent for co-ordinated management. The more systematic and regular use by the Tata companies of Tata Sons, Tata Industries, Tata Exports, Tata Services and the overseas Tata Companies was a natural development after April, 1970. Parallels to this are to be found in many other erstwhile managing agency groups. The difficulty arises when it is claimed that these companies are not interconnected—that they are not under any kind of common control and management—that each one is an independent concern acting under its own Board without any common controlling links with other companies; that the abolition of the common managing agency has made a world of difference to the 'interconnected' nature of these companies.
- (3.21) The whole purpose of the investigation was to refute this statement and to show that in a sense the abolition of the managing agency had not made any significant difference to the coordinated control and management of the Tata Companies. This was specially true of TISCO and TELCO which both continue to be controlled by Tata Sons (P) Ltd. and its subsidiary, Tata Industries (P) Ltd. An important role in common control is played by Shri J.R.D. Tata who is 47—8 M of LJ & CA/ND/79

the common Chairman of all and Shri S. Moolgaokar who is a common Director and the Vice-Chairman of TISCO and TELCO. Tata Services is one of the important instruments used by the controlling group to help the co-ordinated management of the Group. This is the conclusion to which all the evidence on the subject clearly leads.

(3.22) It is a pity that the results of this investigation have had to be left in mid-air like this. In some ways, the Commission was fortunate in that it was dealing with Tata Companies as the first case for examining interconnection. With their records of responsible and law-abiding behaviour and co-operation with Government, the Tata companies gave complete co-operation to the Commission once they had lodged their protest regarding the nature of the investigation. If the Commission had completed this investigation, it would have provided a good understanding of the manner in which the largest group of Companies in India operates through its common links. This would have been of use not only for this case, but also to understand the strong and weak points of the M.R.T.P. Act itself and the manner in which any reorganisation of indutrial structure in the future could be thought about. From the point of view of the methodology of examining interconnection under the MRTP Act, completing the enquiry in a case like this would have been of great value. It is a pity that this effort was abandoned almost at the last minute by the majority in the Commission. This may have possible adverse effects on further investigations of this kind. It may also become more difficult to bring about some of the structural changes that may be necessary as a part of the conditions for approving TELGO's expansion if it is felt that establishing interconnection is essential for that purpose.

Change in Control Necessary

- (3.23) As has already been explained, the purpose of looking into this question of TELCO's interconnection with other Tata Companies was to examine what conclusions could be drawn regarding the impact of approving TELCO's expansion on the economic power of the Tata House. The impact of this expansion will not only be that TELCO's domination of the commercial vehicles industry will increase even further but also that a built-in mechanism for its further domination of that industry will be created. The proposal includes the creation of a new unit in Poona. While at this initial stage, it is proposed to limit the capacity of the new unit only to 9,000 vehicles of medium or heavy size, the Company has indicated its intention of taking up the production of a light truck. Considerable R & D work on such a vehicle has already been done. Moreover, if TELCO continues its tradition of efficient management and building up of growth potential, as one hopes it will, it would only be natural if its Poona unit has to be expanded further so as to attain a size about equal to that of the present Jamshedpur unit. This would be important from the point of view of ensuring the maximum exploitation of economies of scale. An important question which has therefore to be thought about at this stage itself is whether a unit which may continue to dominate the whole industry increasingly should be permitted to grow largely or mainly in the private sector. Is it not necessary that it should at least be brought effectively in the joint sector?
- (3.24) This issue becomes even more important if we take note of the possible interconnection of TELCO with other Tata Companies as listed in the Dutt Committee report. The House of Tatas is the largest business group in the country from the point of view of its capital assets, with TISCO and TELCO as the topmost concerns not only in the Tata House but in the private sector as a whole. Can we ignore this aspect when considering the expansion proposal, especially in view of the fact mentioned in the above paragraph, viz., that the present expansion may lay the basis for every substantial built-in expansion of TELCO over the next decade or so. Should we permit so much increase in the concentration of economic power of the House of Tatas, or should we lay down conditions under which the growth of TELCO is permitted only if it can be effectively delinked from the Tata House?
- (3.25) It may be said that even if TELCO is said to be interconnected with other Tata Companies including TISCO, can we say that this concentration of economic power in the past has been to the common detriment? It would be said that apart from the generally high reputation of the House of Tatas in the matter of responsible business behaviour, our detailed examination of the working of TELCO indicates that there are good grounds to suggest that its economic power has not purposely been misused. There has, on the other hand, been a genuine attempt to build up a professional cadre of management on the basis of open competition and one does not find in the top echelons of the Company and significant number of persons inadequately qualified or related to highly placed persons in Tata Companies. The Company's attitude to technological development and quality control has been commendable. Its approach to the ancillary industry has been helpful even though it has not done as much as one would have expected for the development of ancillaries in Bihar where its Jamshedpur plant is located. It has not attempted to maximise its profits at the cost of the consumer. Like other companies in the House of Tatas, it has also built up a tradition of fair play vis-a-vis Government and also regarding the community generally. One cannot

therefore in fairness to the Company say that its powers have purposely been used to the common detriment in the past. While it has not been possible for the Commission to go into similar investigations about other Tata Companies it would not be far fetched to say that broadly a similar conclusion would hold true about many of them.

- (3.26) One has however to look at this question from a different angle. The concentration of economic power that has been represented by a business group may not in the past have been specifically used to the public detriment but it is always potentially available for such misuse. The larger the company or the group, the greater the potential danger. That is the reason for the new industrial licensing policy, the convertibility of loans into equity, the nationalisation of Banks and other such measures. The preamble to the MRTP Act specifically indicates that it is meant "to provide that the operation of the economic system does not result in the concentration of economic power to the common detriment....."—this is with reference to the future, not the past. It is therefore necessary to create built-in devices for the purpose of making certain that, while permitting a concern on technical grounds to grow further and in the process to add to its monopoly economic power, such changes in its ownership and control are brought about as to make the potential misuse of its monopoly and concentration powers difficult. As we shall further discuss when examining the Scheme of Finance, it is also necessary that the benefits arising from the expansion should substantially go to the consumer and the public, and not mainly to the shareholder. For all these reasons, in my view, it is necessary that the Company's links with other Tata companies and especially with TISCO should be weakened as a condition of approving the expansion proposal.
- There are other considerations which lead us to the same conclusion. As we have stated earlier, TELCO is at the moment in the best position to become the spear-head of an attempt to bring about essential improvements in the management of the other units producing commercial vehicles, viz., Premier and Hindustan, so as to improve their efficiency and ensure better utilisation of the resources invested in them. As these two concerns are also engaged in the production of passenger cars about which there are many complaints, the injection of the technology-oriented, professional and dynamic elements from TELCO in their management may be of significant benefit to the country. But this can only be done if TELCO no longer remains essentially a company belonging to the Tata groups but becomes in fact an independent concern which is a national enterprise. One way to do this might be to nationalise it. Looking at the fact that the public financial institutions and banks already control a significant equity in TELCO, it appears that there is no reason to think of nationalisation—an increase in the equity held by public financial institutions or Government would be quite adequate for the purpose in view. If we can achieve this, we would have ample justification for using TELCO for improving the management of other automobile concerns. There can then also be no objection to its expansion on the ground that it would lead to the waste of production capacity which already exists in the country. The utilisation of that capacity and TELCO's expansion will go on side by side as part of a common endeavour. This however can be ensured only if, in TELCO's equity structure, public financial institutions come to have a larger share.

Specific change suggested

- (3.28) It has already been indicated that, in TELCO's equity structure, the largest single share holding is that of TISCO—18 per cent, and the second largest that of Daimler-Benz, the erst-while foreign collaborator. This, combined with a small proportion of shares held by Tata Trusts etc., provides the real basis for the interconnection or links between TELCO on the one side and the other Tata companies on the other. If TISCO is made to divest itself of this equity holding and, at the same time, it is transferred on an agreed basis to public financial institutions, both the purposes would be served—the formal basis for Tata interconnection would no longer exist and, at the same time, the public financial institutions will come to have a controlling equity holding. As there is a major foreign shareholding in the Company, it is obviously necessary that, if TISCO's 18 percent holding is to be liquidated, it should preferably be transferred to an Indian equity-holder who will control a larger proportion of the equity than the foreign party. This would therefore involve a transfer of TISCO's equity holding to a public financial institution by mutual agreement.
- (3.29) It may be said that as the holding in TISCO's equity of public financial institutions, including nationalised banks, appears to be as high as 36% or so, there is no reason to worry about the shareholding by TISCO in TELCO. This is not a valid argument. Firstly, we do not know how far the shares held in the names of nationalised banks are held by them as pledge against short term loans—in which case they may revert back to the original owners. Secondly, upto now the management of TISCO continues to be effectively the same as before the abolition of the Managing Agency and it continues to be run as a company of the Tata Group. Thirdly, we have enough prima facie evidence to suggest that its 'interconnected' with other Tata companies including Tata Sons and Tata

Industries and is under the management control of a group of persons including Shri J.R.D. Tata and Shri S. Moolgaokar through these latter companies. All this indicates that either the equity held by the public financial institutions is not large enough for them to be in control of the company or they have decided, for reasons of policy, to permit the management control of the Tatas to continue undisturbed. Whichever way it is, the net effect is that TISCO continues very much to be a Tata House concern and its shareholding in TELCO is a major factor in helping those who control the Tata House also to control TELCO. An important objective of the approach suggested by me is that TELCO should now cease to be a Tata House concern. It should become a genuinely independent joint sector concern with no special links with other Tata House companies.

(3.30) One can appreciate the reasons why TISCO came to have such a large shareholding in TELCO. The latter was pioneered by the Tata House one of whose major earlier ventures was TISCO. So TISCO sponsored TELCO and has been an initial investor in it. One can appreciate this historical role of TISCO and give credit to it and the Tatas for their contribution to TELCO's development. But we are now committed to industrial development without undue increase in the concentration of economic power of larger business groups and companies. The House of Tatas and TISCO represent such large concentration. The expansion of TELCO will add to this concentration in their hands. This will yield no benefit to the community and might create potential for public harm. It is therefore only appropriate that, while agreeing to TELCO's expansion, the Government should take steps to eliminate TISCO's large shareholding in TELCO.

Implementing the change

- (3.31) If the Commission had completed its interconnection enquiry and provided complete proof regarding TELCO and TISCO being interconnected, it might have been easier to lay down a condition to the effect that TISCO must divest itself of this equity holding, if TELCO is to be permitted to go ahead with its expansion. Now that, because of my colleagues' refusal to continue and complete the enquiry, it has not been possible to provide adequate proof of this kind, it is for Government to decide what would be the best course in the circumstances. One method might be for the Government to pursue the interconnection enquiry on its own. Enough clues have been provided as a result of the investigation conducted by the Commission to provide a prima facie case for this purpose. As has already been explained, it was the Commission's unanimous view that, if the investigations had been pursued, probably the conclusion about interconnection among the important Tata companies could have been firmly established.
- (3.32) The other alternative open to Government is to advise TISCO to divest itself of its shareholding without reference to the expansion application of TELCO. TISCO itself has considerable need of finance for its on purposes and it is likely that public financial institutions will have to assist it. There is no necessary reason for TISCO to have its funds locked up in an investment of this kind while borrowing for its own purposes from financial institutions. Whichever method is found to be more practicable may be adopted. It is my view however that, one way or the other, this must be done if approval of TELCO's expansion is not to lead to an accentuation of the concentration of economic power of the House of Tatas, and further if this expansion is to go ahead side by side with the better utilisation of underutilised capacity in the commercial vehicles industry. Such an approach would be quite in keeping with the basic purpose of the MRTP Act as laid down in its preamble and the considerations indicated in Sec. 28(a), (c) and (d).
- (3.33) How exactly the future role assumed above for TELCO and for the public financial institutions in this respect is actually to be carried out is a matter of detail with which this Report need not concern itself. Some ideas about this have already been discussed in Chapter II. One may think of other organisational devices suitable for the purpose.
- (3.34) The essential points to be emphasised would be two: (i) With the large stake by way of equity holdings that the public financial institutions would have in these various undertakings, they must make sure that the quality of the management of each undertaking is good enough to ensure its proper development and operation guarding, at the same time, the interest of consumer and that of the community as a whole. The public financial institutions cannot ignore this responsibility and permit inefficient managements to continue year after year on the plea of non-interference. (ii) The potential control that the public financial institutions would exercise should not lead to the creation of a monopolitic automobile undertaking in the country. While a situation of oligopoly cannot be avoided in an industry like this, and each unit may have to be permitted to grow to a substantially large size in order to ensure the maximum economies of scale, the maintenance of a minimum degree of competition is of great importance for the health of the industry. It is only when one or the other undertaking is found to be very much wanting that the financial institutions as the principal owners must intervene and bring about changes in management, drawing upon one of the other undertakings for that purpose, if necessary.

APPENDIX TO CHAPTER III

ANNEXURE I

TISCO—Board Meeting (12-3-1970)

VI. Delegation of powers by the Board

The Board considered further the management set up when the office of the Managing Agents would terminate on 2nd April 1970. The Board directed that a Committee consisting of the Chairman, Mr. J.R.D. Tata and the Vice Chairman, Mr. S. Moolgaokar be appointed to—

- (a) allocate the duties and powers to be performed and exercised by the Managing Director and the other Executive Directors and to give directions to carry this into effect;
- (b) supervise and control on behalf of the Board the exercise of such duties and powers by the Managing Director and Executive Directors;
- (c) give directions in regard to the business and affairs of the Company not covered by the duties and authorities conferred on the Managing and Executive Directors as aforesaid; and
- (d) generally, subject to further directions of the Board, exercise such other powers and duties as were previously exercised by the Managing Agents.

TELCO-Board meeting (13-3-70)

VI. Delegation of powers by the Board

The Board considered the management set up when the office of the Managing Agents would terminate on 2nd April 1970. The Board directed that a Committee consisting of the Chairman, Mr. J.R.D. Tata and the Vice-Chairman, Mr. S. Moolgaokar be appointed to—

- (a) allocate the duties and powers to be performed and exercised by the Managing Director and the other wholetime directors and to give directions to carry this into effect;
- (b) supervise and control on behalf of the Board the exercise of such duties and powers by the Managing and wholetime directors;
- (c) give directions in regard to the business and affairs of the Company not covered by the duties and authorities conferred on the Managing and whole-time Directors as aforesaid, and
- (d) generally subject to further directions of the Board exercise such other powers and duties as were previously exercised by the Managing Agents.

Tata Chemicals—Board Meeting (30-3-70)

Delegation of powers to the Chairman and the Managing Director on the termination of the Managing Agency

It was suggested that the approval of the Board be given to the delegation of the following powers to the Chairman of the Company, Mr. J.R.D. Tata and the Managing Director, D. Seth, such power to be exercised by either of them singly:—

"Same powers as those of M.D."

TOMCO Ltd.,—Board Meeting (10-3-70)

"(7) Under Articles 170 and 179(24) of the Company's Articles of Association, power had been expressly conferred upon the Board of Directors to delegate their functions to any of their members. In view of the change in the systems of management, it would now be necessary to delegate to the Chairman and the Managing Director certain powers, authorities and duties such powers to be exercised by either of them singly to enable, them to attend to the day-to-day management of the Company.

- (8) The Board after careful consideration passed the following resolution:—
 - "Resolved that, subject to the superintendence, control and direction of the Board of Directors of the Company, and subject also to the provisions of the Memora dum and Articles of Association of the Company, Mr. J.R.D. Tata and Mr. M.A. Wadud Khan, being the Chairman and the Managing Director of the Company, be and are hereby authorised and empowered to exercise and perform singly the under-mentioned powers, authorities and duties, with effect from 10th March 1970, with power to delegate to any of the Executives of the Company any of the aforesaid powers as set out in paragraph (26.....)
- (1) To borrow monies from time to time in the ordinary course of business of the Company from any scheduled Bank or Banks, Credit Corporations or other sources without the Board's approval on such rate(s) of interest and other terms and conditions as may be considered reasonable depending upon the market conditions, so however that the total amount of such borrowing outstanding at any one time does not exceed Rs. 50 lakhs....
- (3) To accept fixed deposits from time to time from any source on such rate(s) of interest and other terms and conditions as may be considered reasonable depending upon the market conditions and subject to such limit(s) and other terms and conditions prescribed by the Reserve Bank of India and subject further that the total amount of such fixed deposits so accepted and outstanding at any one time does not exceed Rs. 1 crore.
- (4) To sign cheques drawn upon the Bankers of the Company, whether on its current accounts or on its cash credit accounts or on its overdraft accounts and also by way of endorsement to sign all cheques, drafts, bills of exchange, orders for monies, Hundis and other documents drawn in favour of our payable to the order of the co.
- (5) To invest the funds of the Company in any approved securities under the Indian Trusts Act upto a limit of Rs. 5 Lakhs, the same to be reported for confirmation to the Board at its next meeting.
- (9) To appoint and dismiss agents or accept agencies for the Company in India or any part of the world for a period of five years for such purposes and on such terms as may be deemed fit.
- (13) To authorise and sanction any settlement with a union representing employees of the Company at any of the Company's establishments covering any of the demands of the employees.
- (14) To authorise and sanction any benefits, allowances and subsidies to any category of the staff as per the existing rates and rules and to revise the existing rates and rules of such benefits, allowances and subsidies to any category of the staff as may be deemed fit.
- (20) To enter into and sign all contracts, leases, licences, letters and documents of any and every kind or descriptions whatsoever, where such signature is necessary or expedient, in connection with any of the Company's business and affairs.
- (21) To institute, prosecute and defend all legal proceedings by or against the Company or in which the company may be in any way interested or concerned, and for such purpose to engage and pay advocates, solicitors, agents and pleaders, and to sign and declare plaints, written statements, complaints, vakalat names and other pleadings, documents and statements.
- (22) To attend and vote at all meetings and make claim in any bankruptcy, insolvency or liquidation proceedings in which the company is or may be directly or indirectly interested.
- (23) To attend and vote at the meetings of any company or companies or otherwise to act as the proxy or representative of the company in respect of any shares now held by the Company therein and for that purpose to sign and execute any proxies or other instruments.

- (25) To appoint stockists and distributors and to accept security deposits from time to time from such stockists, distributors and any other trade level who are required to pay deposits to the Company in connection with the Company's distributorships or stockistships or such other arrangements.
- (26) To delegate to any of the Executives of the Company any of the above power except the powers specified under Clauses (1), (4) to (7), (19) and (23)".

Annexure II

TISCO—Board Meeting (18-12-69)

"Resolved further that the Managing Agents be requested that the services of Shri S. K. Nanavati who has had such a long and close association with the company as the Officer of the Director of the Company, be made available as the Managing Director of the Company from 3-4-70".

"The Board further resolved that the Managing Agents be requested to make available the services of Shri R. S. Pande and R. H. Modi as wholetime Directors of the company from 4-4-70."

"The Managing Agents stated that on termination of the Managing Agency agreement, Mr. J.R.D. Tata and Mr. S. Moolgaokar would cease to be Special Directors of the Company and it was therefore proposed to appoint them as Directors liable to retire by rotation with effect from 3-4-70. A resolution to this effect would be moved at the proposed Extra-ordinary General Meeting. Mr. J.R.D. Tata would continue to be Chairman and Mr. S. Moolgaokar Executive Vice-Chairman of the Company.

TELCO-Extraordinary General Meeting held on 31-12-69

"The Directors came to the conclusion that the most suitable form of management for the company would be the management by a Managing Director and three whole-time Directors. It was accordingly proposed to appoint Mr. S. Moolgaokar as the Managing Director and Vice-Chairman of the company and Mr. A. H. Tobaccowala as one of the whole-time Directors of the Company, for a period of five years from 3-4-70 and to request the Managing Agents to make available to the company the services of Mr. Moolgaokar and Mr. Tobaccowala as Director of the company, not liable to retire by rotation."

Tata Chemicals—Board Meeting (23-12-69)

"Resolved that the Managing Agents Viz., M/s. Tata Industries Ltd. be requested that the services of their Director, Mr. D. S. Seth, who has a long and close association with the company, be made available to the company with effect from 1-4-70, the date of termination of the present Managing Agents."

Indian Hotels-Board Meeting (1-4-70)

"Since Mr. R. D. Choksi, who joined the Board of the Company in July, 1965, has been actively associated with the management of the affairs of the company both as a Director of the company and as a Director of the Secretaries & Treasurers, who had appointed him as the Director-in-charge in January, 1968, it was considered to be in the interest of the company that the Board should continue to receive the benefit of his advice and guidance. It was therefore decided to appoint Shri R. D. Choksi as the Vice-Chairman of the company for a period of five years with effect from 1-6-70 subject to the approval of the company in General Meeting and the Central Government.

Svadeshi Mills—Board Meeting (27-10-69)

"The issue was discussed at length and the Directors resolved that the Managing Agents be requested that the services of Mr. N. H. Tata, who has had such a long and close association with the company as the Director and Chairman of the Board, be made available as the Managing Director of the Company from 1-1-70".

Annexure III

Tata Services Limited—Board's Minutes dt. 27-8-71

(5) Allocation of Expenditure of the various Services Department of the Company for the year ended March, 31, 1971.

The Board considered a statement of the total expenditure of the various Services Departments for the year 1970-71 amounting to Rs. 57,70,870 against which direct recoveries amounting to Rs. 7,32,506 were made from certain Tata Companies. The Board decided to allocate the balance Rs. 50,37,864 to the participating companies, as under:—

(6) Delhi Office

The total expenses of the Delhi Office amounted to Rs. 6,53,516. Adjusting thereagainst the sum of Rs. 25,407 recovered from companies for services rendered the net expenses amounted to Rs. 6,28,109 which it was decided to allocate to Tata Companies as under:

					%
Tata Exports		•	•		2
Tata Consulting Engrs.	•	. 1	2		2
Tata Electric Companie	es .	62			3 15
Tata Iron & Steel Co.		- 19			20
TELCO		. 6			14
Tata Oil Mills Co			THE		14
Tata Chemicals .		•	7211	1848	16
Tata Textiles .		- 1	de la company	LEUK L	10
Indian Hotels Co	•	- 8	N.	6.1177	3
Industrial Perfumes .		- Vi			2
Lakme Ltd	•	•	सन्धम	व जयते	2
					100

(7) Delhi Bungalow

The total expenses amounted to Rs. 2,04,340. Adjusting thereagainst the sum of Rs. 37,892 recovered from Tata Companies for the use of the Bungalow, the net expenses amounted to Rs. 1,66,448 which it was decided to allocate to the Tata Companies as under:—

						%
Tata Sons .					•	3
Tata Industries					•	3
Tata Elec. Cos.			•	•		16
TISCO .					•	24
TELCO .					•	16
Tata Oil Mills Co.						16
Tata Chemicals	•				•	16
Tata Textiles .		•				6
						100

(8) Economics & Statistics Deptt.

It was decided that the total expenditure amounting to Rs. 1,56,858 incurred by the company on this Department for the year ended March 31, 1971, be allocated to Tata Companies as under:—

						%
Tata Electric Cos.	•	•				10
TISCO		•	•,	•	•	28
TELCO	•			•	•	21
Tata Oil Mills Co.				•	•	16
Tata Chemicals			•		•	15
Tata Textiles .	•	• .		•	•	10
					•	100
				P.07	1225	

(10) Industrial Health Department

The total expenses amounted to Rs. 1,86,653 which it was decided to allocate to Tata Companies as under:—

			-{			%
Tata Elec. Cos.				सद्यमे	व जयते	9
TISCO	•	•		•	•	4
TELCO .	•		•	•	•	7
Tata Oil Mills Co.	•		•	•	•	17
Tata Chemicals Co.		•	•	•		17
Svadeshi Mills Co.	•		٠	•	•	13
Tata Mills Ltd.		•	•	•	•	13
Ahmedabad Advanc	e Mil	ls			•	11
Central India Spg. 8	و Wv	g.	•		•	4
Tata Press .			ě		•	1
National Radio & E	lect. (Co.	•	•	•	1
Indian Hotels Co.	•	•	•		•	2
Voltas Ltd		•		•	•	1
					-	100

(11) Labour Relations Bureau:

The total expenses amounted to Rs. 2,53,403 which it was decided to allocate to the Tata Companies as under:—

						%
Tata Electric Cos.	•	•			•	9
TISCO				•	•	3
TELCO .	•	•	•	•	•.	8
Tata Oil Mills Co.	•			•	•	1.0
Tata Chemicals		•	•	•	•	9
Tata Textiles .	•		•,		•	6
Tata Press .			•	•	•	6
National Radio & Ele	c. Co		•		•	5
Indian Hotels .	•	•	•	• ;	•	6
Industrial Perfumes		,	•	•	•	3
Lakme	•		•		•	3
Voltas Ltd	•		•			9
Tata Merlin & Gerin		•	•		•	2
Tata Finlay .		•	•	•		3
Henley Cables Ltd.		•		n. F.		4
Bradma of India		•	62		S124	3 3
New India Assurance			16			9
National Electric Indi	ustries	1	. (2
				M	MI	100

(12) Legal Deptt.

It was decided that the total expenditure amounting to Rs. 76,077 incurred by the Company on this Department for the accounting year 1970-71 be recovered from the Tata Companies as under:—

					%
Tata Industries .	•	•	•	•	5.28
TELCO	•	•	•	•	9.86
TISCO	•	"•	•′	•	11.19
TELCO	•	•	•		12.50
Tata Oil Mills Co	•	•	•	•	11, 19
Tata Chemicals .		•	• 1		11.19
Tata Textiles	•	•	•	•	11.19
Tata Press					1.31
Tata Fison Indust			•	•	3.95
Investment Corporation	•		•	•	2.63
National Radio & Elec. C	0.	•			1.31
Indian Hotels Co. Ltd.		•	•		5.25
Voltas Ltd			•	•	7.90
Sasson J. David .	•	•		•	1.31
New India Assurance Co.		•	•		2.63
Tata Mcgraw Hill Pub.		.• .	•		1.31
					100.00

(14) New Development Section

The total expenses amounted to Rs. 95,357 which it was decided to allocate to the Tata Companies as under:—

						%
Tata Electric Cos.			• .			10
TISCO			•	•	•	24
TELCO		•		•	•	24
Tata Oil Mills Co.			·		•	20
Tata Chemicals			•	•	•	20
Tata Textiles	•	•	•	•	•	2
						100

(15) Personnel Co-ordination Deptt.

The Directors allocated the net expenditure of Rs. 1,25,728 of the Personnel Co-ordination Department for the accounting year 1970-71 to the Tata Companies as under:—

						%
TELCO .		•				18
Tata Industries		•	•			10
Tata Elec. Cos.		•		1		18
TISCO			63			3 18
Tata Oil Mills Co.	•	•	9			15
Tata Chemicals		•	8			16
Tata Textiles .	•	•	•	111	4111	5
				I	FOT	100

(18) Tata Administrative Service

The total expenditure on the Tata Administrative Service amounted to Rs. 1,61,720 which it was decided to allocate to the Tata Companies as under:—

				(dod)	ાન ગાનવા	%
Tata Elec. Cos.	• •	•		•		10
TISCO .	•		•	•	•	25
TELCO	•			•	•	25
Tata Oil Mills Co		•	•		•	15
Tata Chemicals	•	•	•	•	•	15
Tata Textiles .	•	•	•	•	•	10
					 	100

(25) Central Share Department

It was decided to recover the total expenditure amounting to Rs. 5,70,311 incurred by the Company on the Central Share Department during the accounting year 1970-71 on the following basis:—

					%
Tata Elec. Cos.	٠,	٠			12
TISCO	•	٠.	<u>, </u>		48
TELCO		•		•	15
Tata Oil Mills Co.	•	•		•	8
Tata Chemicals Ltd.	•	•	•	•	10
Tata Textiles .	•	•	•	٠	7
				-	100
				_	

(29) Administrative Office & General Expenses

It was decided that the total expenditure of Rs. 9,13,015 incurred under this head during the financial year 1970-71 be recovered from the various companies as under:—

						%
Tata Sons .				•	٠.	0.50
Tata Industries		•	•			3.75
Tata Elec. Cos.						14.00
TISCO		•			•	21.00
TELCO .		•	•		•	15.00
Tata Oil Mills Co.		•	•			13.00
Tata Chemicals				•		12.50
Tata Textiles .				•	•	7.50
Svadeshi Mills Co.						1.55
Tata Mills Ltd.					•	1.30
Ahmedabad Mills						1.00
Central India .		•			•	0.30
Tata Press .		•	•	•		0.50
Investment Corpn.			•	500	man,	0.80
Indian Hotels Co.		•	.6	F63	18/16/	1.60
Industrial Perfumes		•	16			1.00
Lakme	•	•	6			0.70
Voltas Ltd		•	. 8			1.68
New India Ass. Co.		•	•	UNI	11.94	1.02
Indian Tube Co.		•		1211	777	0.20
Tata Consulting Eng	rs.	. •	- A	i di		0.70
			V			100.00
				सन्धमे	व जयते	

Annexure IV

Extracts from Tata Services Limited

Letter No. TS/CON/G/79/71-72 dated the 2nd November, 1971

The services of Mr. V. Vaidyanathan, Mr. S. A. Sabavala, Mr. F. S. Mulla and Miss K. Divecha have not been taken over by our Company. In view however of the fact that the bulk of the time is being devoted to our member Companies, 90% of their salary and emoluments are reimbursed by our Company to Tata Industries Private Ltd. from 1st April, 1970 being the date of cessation of the Managing Agency.

Annexure V

Tata Iron and Steel Co. Ltd.

Minutes of the Board meeting held on 18-7-70

Payment of increased remuneration to Tata Inc. for services rendered to Tata Companies:

VI(c) The Board were informed that the Reserve Bank of India Bombay, had, as in the previous two years, approved of payment by Tata Companies of an additional retainer of \$1,02,500

to Tata Inc. New York, for the year 1970-71 to meet its estimated revenue deficit in this year. It was proposed that the company should share in this additional amount to the same extent as in the last two years viz., \$ 20,000.

The Board approved and

RESOLVED THAT Tata Inc. New York, be paid an additional retainer of \$ 20,000 for the year ending 31st March, 1971.

Board meeting held on 8-7-1971

Tata Relief Project (BANGLA DESH)

It was reported to the Board that the Tata Companies and Associated Companies at Jamshedpur had proposed that relief work for the Bangla Desh refugees should be directly undertaken by the companies by taking up a camp in Bihar and providing the refugees with medical care, housing, clothing and other facilities. It was estimated that the expense on such a camp would be about Rs. 10 lacs. Out of this, it was proposed that Rs. 6 lakhs should be contributed by the Steel Company, Telco and ITC in the ratio of 45%, 40% and 15% respectively and the Board's approval was accordingly being sought to incurring an expenditure of 2.70 lakhs for this purpose.

Tata Chemicals Ltd.

Board Meeting held on 23-6-70

Sanction for payment of Retainer to Tata Inc. NY

At the Board Meeting held in May, 1969, the Directors had approved of the payment of a total retainer of \$ 12,200 to Tata Inc. New York, for the year 1969-70.

For the year 1970-71, the Reserve Bank, in response to representations, accorded their sanction to *Tata Companies* for payment of a retainer of \$ 94,700 and an additional retainer of \$ 1,02,500 to Tata Inc., for services rendered to the Tata Companies in India. Of this total retainer of \$ 1,97,200 this Company's share on a pro-rata basis worked out to \$ 12,200, which was the same as last year.

The Directors approved of the payment of a total retainer of \$ 12,200 to Tata Inc. New York, for the year 1970-71.

Annexure VI

Tata Iron and Steel Co. Ltd., Bombay House "X" Bruce Street, Bombay-1 Extract from the Minutes of the meeting of the Board of Directors held on 14th May, 1970

Powers of Attorney to Mr. S. A. Sabavale, Mr. V. Vaidyanathan and Mr. P.S. Avasthi and Mr. R. Dandapani for representing the Company in New Delhi

XVII. (A) The Board approved of the grant of powers of Attorney, as per the drafts placed on the table, to (A) Mrs. S. A. Sabavala, (B) Mr. V. Vaidyanathan and (C) Mr. P. S. Avasthi and Mr. R. Dandapani, authorising them to represent the Company before Government authorities and sign documents and perform other acts on behalf of the Company in New Delhi.

The Powers of Attorney to Mr. S. A. Sabavala and Mr. V. Vaidyanathan would contain the following main powers:—

- (i) To represent the company before any Ministry/Government Department/Office/Officer in all matters concerning the business of the company and to sign for and in the names of the Company any communication representation or application to be submitted to any Government Department/Officer.
- (ii) To claim and receive all refunds of taxes, rebates or drawbacks from the Government, Customs, Municipality or local bodies and to give proper and valid discharges and receipts on behalf of the Company for the same.

- (iii) To sign in the name and on behalf the Company all applications for import licences and to agree to and accept such terms and conditions as may be prescribed by the Chief Controller of Imports & Exports and to comply with, perform and observe the terms and conditions.
- (iv) To apply for registration, recognition, licence and authorisation of any State Government under any law of the Central and/or State Governments or any rule bye-law notification order or press note of the Central or State Governments.
- (v) To take on lease, hire, rent any immovable or movable properties required for the purpose of business of the Company for a period not exceeding three years and to execute the documents necessary for the purpose.
- (vi) To file suits representations, etc. and to defend suits on behalf of the Company.
- (vii) To endorse Government promissory Notes in favour of relevant Central and State Govt. authorities.
- (viii) To sign or subscribe in relation to and for the purpose of the business and affairs of the company all Customs passes, Import and Export Manifestos, Certificates of Origin, Security Bonds, Guarantees, indemnities and all declarations and documents of every kind as may be necessary for the declaration and passing of any goods, materials, plant, machinery, minerals, or mineral substances any Customs House in India.

The power of Attorney to Mr. P. S. Avasthi and Mr. R. Dandapani would contain the following main powers in addition to the powers (i), (ii) & (iii) set out above:

- (i) To accept and endorse bills of landing, railway receipts and other documents in respect of goods despatched or received by the Company.
- (ii) To sign and execute on behalf of the Company.
 - (a) indemnity bonds for clearance of goods,
 - (b) contracts necessary for the sale in India or elsewhere of goods manufactured or distributed by the Company,
 - (c) affidavits with Government or other authorities in connection with the business of the business of the Company and file the same.
- (iii) To sign all correspondence in the ordinary course of business of the Company.
- (iv) To sign agreements and all other documents and papers required to be signed in the course of business of the company.
- (v) To act generally as Attorney or Agent of the company in relation to the Company's business or affairs.

RESOLVED that powers of Attorney, as per the drafts placed on the table, be granted to Mr. Sharokh Ardeshir Sabavala, Resident Director, Tata Industries Private Limited at New Delhi, Mr. Viswanatha Vaidyanathan, and Mr. Prem Shanker Avasthi and Mr. Ramanathan Dandapani and that these be executed under the common Seal of the Company in accordance with the Articles of Association of the Company.

True Copy
The Tata Iron and Steel Company Limited

(Sd.)

(Mrs. K. R. JAVERI)

Secretary

Annexure VII

Tata Oil Mills Co. Ltd.

Board Meeting held on 10.11. 70

Registered User Agreement with Tata Sons for Trade Marks

- 24. Reference was made to the agreement entered into on 21st November, 1962 with Tata Sons P. Ltd., the 100% holding company of the Company's former Mg. Agents, Tata Industries P. Ltd., which provided inter alia that the permitted use of Tata Sons' 23 trade marks by the company would only be during the period that Tata Industries would be the Managing agents. Since Tata Industries ceased to be the Managing agents of the Company on 31-12-1969 and in order to enable the Company to continue the permitted use of Tata Son's trade marks, a Supplemental agreement was entered into with Tata Sons on 30th Dec., 1969.
- 25. At the time of entering into the above agreement. Tata Sons had proposed payment of a sum of Rs. 10,000 for per annum as consideration. Tata Sons had now decided to permit the use of their trade marks on a nominal token payment of Re. 1 per annum instead of Rs. 10,000 per annum as decided previously.
- 26. The Directors approved of this variation in the term of the agreement dated 30-12-1969 and expressed their high appreciation of the gesture made by Tata Sons and the Chairman Mr. JRD Tata. The following resolution was then passed:—
 - "RESOLVED that the Directors approve of the second Supplemental agreement entered into by the Company with Tata Sons P. Ltd., for varying the clause of consideration on the earlier agreement with them for use of their trade marks."
 - 27. Mr. J.R.D. Tata being an interested Director in Tata Sons P. Ltd., did not take part in the discussion, or vote.

The Ahmedabad Advance Mills Ltd.

Copy of Board Circular No. 1109 of 26th Dec., 1969

The Directors,
The Ahmedabad Advance Mills Ltd.
Ahmedabad.

Gentlemen,

Extension of registration of the Company as the Registered User of Tata Sons' Trade Marks in various classes

It will be recalled that under an Agreement between the Company and Tata Sons P. Ltd., the Co. has been granted the Registered User of certain Trade Marks containing the words "Tata and A Tata Product". These marks are being used on all our products in conjunction with our own registered Trade Marks.

The registered user agreement between the Company and Tata Sons provides, inter alia, that the permitted use of the Tata Sons' trade marks by the Company shall only be during the period that Tata Industries P. Ltd., continue to be the Secretaries and Treasurers of the Company.

Since Tata Industries will cease to be the Secretaries and Treasurers of the Company on 31st Dec., 1969 and with a view to enabling the Company to continue the permitted use of Tata Sons trade marks, even after that, Tata Sons have kindly agreed that the existing registered user agreement may be varied to provide that the Company would be entitled to use the said trade marks or any of them even after Tata Industries P. Ltd., cease to be the Secretaries and Treasurers of the Company, on an annual payment of Rs. 3,500 to Tata Sons P. Ltd.

For this purpose it will be necessary to enter into a supplemental agreement with Tata Sons P. Ltd. duly executed under the Scal of the Company and an application to the Registrar of Trade Marks for approval of the Supplemental Agreement is required to be made before Tata Industries P. Ltd., cease to be the Secretaries and Treasurers of the Co. on 31-12-1969.

It is in the interests of the Company that the Company should continue the use of the marks on its products even after Tata Industries cease to be the Secretaries and Treasurers.

The Directors are requested to consider the proposal and pass the following resolution if they approve.

"RESOLVED that the offer of Tata Sons P. Ltd. about the continuance of the Registered User of certain 'TATA' Trade Marks even after Tata Industries P. Ltd., cease to be the Secretaries and Treasurers of the Co., on 31-12-1969 on an annual payment of Rs. 3,500 by the Co., to Tata Sons P. Ltd., be and is hereby accepted and that the necessary Agreement of Agreements for the purpose be entered into with Tata Sons P. Ltd., and that the Agreement or Agreement be sealed with the Common Seal of the Company in the presence of and be signed by two Directors of the Company in conformity with the Articles of Association, of the Co.

"Resolved further that all the necessary steps to give effect to the Resolution be taken, including any power of Attorney required to be executed in favour of any individual or any Attorneys at Law with a view to enabling him or them to act as the Company's agent or Agents in the matter of the above referred Registered User."

Board Meeting held on 23-6-70

The Association Golden Jubilee Fund for the Eyes of India

The associated Chambers of Commerce & Industry of India had approached Tata Companies for their support for the special Golden Jubilee Fund to promote the EYES OF INDIA campaign of the Royal Commonwealth Society for the Blind.

In response to this appeal, Tata Companies proposed to contribute a sum of Rs. 20,000 of which the Company's pro-rata contribution worked out to Rs. 2,500.

The Directors approved of Company making contribution of Rs. 2,500 to this fund.

Tata Chemicals Ltd., (contd.) Board meeting held on 17-9-1970

Sanction for company's contribution to Gramswaraj Fund

An All India Committee for Gramswaraj fund had been constituted to collect a substantial fund to be presented to Acharya Vinoba Bhave on his 75th Birthday. In response to this appeal TATA Companies contribution would be as follows:

•						Rs.
Electric Companies		•		•	•	5,000
Tata Chemicals			•	•	•	5,000
Tomco		•		•		5,000
Voltas		•	•			2,000
Swadeshi Mills			•	•	•	1,000
Tata Mills .				÷	•	1,000
Ahmedabad Advanc	e.	•	•	•	•	1,000
					_	20,000

The Directors approved of the Company contributing Rs. 5,000 to the Gramswaraj Fund.

Board meeting held on 19-11-1970

Contribution by way of interest subsidy towards Gujarat Flood Relief

At the time of severe floods in Gujarat in 1968, a Committee known as Bombay Citizens Gujarat Flood Relief Committee, was constituted in Bombay with Mr. Arvind N. Mafatlal as the

Chairman. This Committee prepared a scheme for Rupees One Crore interest free loan to rehabilitate those who had suffered during the floods. The Trade and Industry Associations of Gujarat agreed to subsidise interest on an amount of Rs. 40 lacs at the rate of 6% and the balance of Rs. 60 lacs was to be subsidised by Business House and Industrialists from Bombay. The Company's erstwhile Managing Agents had agreed in April, 1969 to pricipate in the Scheme. Subject to the approval of their Boards, Tata Companies had agreed, in response to a request from Mr. Arvind Mafatlal to make an interest subsidy at the rate of 6% on Rs. 18 lacs for a period of 5 years out of the total amount of Rs. 1 crore, and the amount was allocated as under:—

Name (of the	e Com	pany				Amount of the loan on which interest may be subsidized	Amount of interest payable per year
							(Rs. in lacs)	
								Rs.
risco .	• ′					• "	4	24,000
TELCO .	TELCO						. 4	24,000
TATAKEM				•	•		4	24,000
TOMCO		•					2	12,000
VOLTAS		•		• ,			2	12,000
TEXTILES		•				•	1	6,000
TATA CONS	ULT	ING :	ENGI	NEEF	RS	THE R	1	6,000
				É				1,08,000

Tata Chemicals (Contd.)

Accordingly this Company would be subsidising interest for an amount of loan of Rs. 4 lacs and the amount of interest payable per year would be Rs. 24,000.

Board Meeting on 27-1-1971

Sanction for the Company's contribution to the Gujarat Flood Relief Fund

It had been recommended that Tata Companies might make an aggregate contribution of Rs. 5 lacs to the Tata Relief Committee to undertake the above mentioned relief programme, out of which this company's pro-rata share would be Rs. 2 lacs.

The Directors passed the following Resolution in approval:-

"Resolved that the Company do contribute a total sum of Rs. 2 lacs to the Tata Relief Committee for undertaking the Relief Programme in the Broach area as per details submitted to the Board."

Sanction for Company's contribution to the Family Planning Foundation

In order to get the project off the ground, the Governing Board of the Foundation had decided to raise about Rs. 50 lacs from the Indian business and industrial community. The Ford Foundation had agreed to make an initial grant equivalent to one-third of the amount raised by Indian business and industry subject to a maximum of Rs. 15 lacs.

In view of the vital importance of population control to Indian Industry, it was felt that TATAS should give a lead in the drive for the collection of funds, and the total Tata contribution would be of the order of Rs. 10 lacs, spread over a period of two years, of which this Company's prorata share would be Rs. 0.75 lacs.

"RESOLVED that the Company do contribute a sum of Rs. 75,000 spread over a period of two years to the Family Planning Foundation."

49—8 M of LJ&CA/ND/79

Board Meeting on 28-4-1971

Sanction for the Company's contribution to the Bangla Desh assistance committee

An All-India Committee called "Bangla Desh Assistance Committee" had been constituted to organise relief for the victims of the present conflict in East Bengal, of which Mr. M. C. Setalvad was the Chairman, and Miss Padmaja Naidu was the Vice Chairman. The question of Tatas' contribution to this Committee had been considered and it had been agreed that initially Tata Contribution should be of the order of Rs. 2 lacs, out of which Tata Trust would contribute Rs. 1 lac and the Tata Companies the balance.

As the Committee was in urgent need of funds to render immediate assistance to the victims of the conflict in East Bengal, it had been suggested that the Tata Companies' contribution should be made available to the Committee immediately.

Out of the total contribution of Rs. 1 lac from Tata Companies, the Company's pro-rata share would be Rs. 11,000 which the Directors approved and sanctioned.

Tata Industries (P) Ltd.

Board Meeting on 4-3-1970

Appointment of Managing Director and their remuneration

Mr. N.A. Palkhivala reported that applications had already been made by several Tata Companies for the appointment of Managing Directors and whole time Directors as approved by their respective shareholders. It was consideration whether separate applications should be made now asking for a suitable minimum remuneration for the Managing Director in any year in which the company's profit were not adequate to pay to full remuneration to him on the basis approved by the shareholders. It was agreed that such applications should be made at this stage although under the law it was open to the companies to make such applications in the year in which the profits were not adequate.

Remuneration of Directors:

Mr. N. A. Palkhivala reported that in the proposals approved by the shareholders of various Tata Companies it was provided that a sum not exceeding one per cent per annum of the net profits of the company calculated in accordance with the provisions of the Companies Act, be paid to and distributed amongst the Directors of the Company or some or any of them (other than the Managing Director, the Joint Managing Director, if any, and the whole-time Director or Directors, if any) in such proportions as may be directed by the Board. Mr. Palkhivala stated that a query had been received from Government by some companies asking as to what specific or special services such Directors would render in respect of which the proposed commission was to be paid. The subject was discussed and it was agreed that a suitable reply should be sent to Government by the Companies concerned, under the advice of Mr. Palkhivala, setting out the reasons for and the grounds on which the commission was proposed to be paid to such Directors.

The Svadeshi Mill; Co. Ltd.

Donation to the Economic Ressearch Centre, New Delhi, True copy of the Board Circular dt. 20-2-1970.

In November, 1967, the then Managing Agents had recommended that Tata Companies should make an aggregate contribution of Rs. 25,000 per year, for two years, to the Centre, the share of our Company being suggested at Rs. 1,000 per year. At the Board meeting held on 12th December, 1967, The Directors of the Company had sanctioned an aggregate donation of Rs. 2,000/- to the Centre, to be paid in two equal annual instalments and the donations were made accordingly.

The Board of Tata Industries have recommended a further contribution of Rs. 15,000/- per year, for two years to the Centre from the Tata Group of Companies, the share of our compnay being suggested at Rs. 500/- per year.

The Directors are requested to sanction an aggregate donation of Rs. 1,000 to the Economic Research Centre be paid in two equal annual instalments, either directly or through Tata Industries P. Ltd.

The Assocham Golden Jubilee Fund for the "EYES OF INDIA" compaign

It has been recommended that an aggregate contribution of Rs. 20,000 be made by Tatas Companies to the ASSOCHAM for the purpose.

It is suggested that the Company contribute Rs. 750 towards laudable cause.

If the Directors agree, they are requested to indicate their approval by signing the Circular in full.

Circular letter No. 1537 dt. 26-4-1971.

Bangla Desh Assistance Committee

As the Directors will have read from Press reports, an All India Committee called "Bangla Desh Assistance Committee" has been constituted to organise relief for the victims of the present conflict in East Bengal, of which Mr. M.C. Setalvad is the Chairman and Miss Padmaja Naidu is the Vice Chairman. Mr. S.A. Sabava, Director, Tata Industries P. Ltd., resident at New Delli, is one of the Hon. Secretaries of this Committee.

At a meeting of the Tata Directors' Co-ordination Committee held during the month, the question of Tatas' contribution to the Bangla Desh Assistance Committee was discussed when it was felt that, initially, Tatas' contribution may be of the order of Rs. 2 lakhs, of which Tata Trusts would contribute Rs. 1 lakh, leaving the balance of Rs. 1 lakh to be made up by the Tata Companies.

In view of the urgent requirements of the Committee for funds, it is recommended that the Company contribute Rs. 4,000 to the 'Bangla Desh Assistance Committee'.

Tata Engineering & Locomotive Co. Ltd.

Board meeting dated 2-8-1971

Contribution for the relief of the Refugees from Bangla Desh.

The Company had donated Rs. 50,000/- to the Bangla Desh Assistance Committee, New Delhi. It was now felt that instead of merely contributing money to other agencies, Tatas should take a direct hand in the relief operations. Accordingly, it had been decided to take up a camp at Kishanganj in Purnea District, Bihar, involving about 7,000 refugees and provide them immediately with medical care and articles like blankets, clothing, utensils, lanterns etc.

The project which would be called "TATA Refugee Relief Project (Bangla Desh), Jamshedpur" was estimated to cost Rs. 10 lakhs of which Rs. 6 lakhs were proposed to be spent by Tisco, Telco and ITC in the ratio of 45%, 40%, 15% respectively the remaining Rs. 4 lakhs being contributed by the other Tata Companies. The Company's share of the expenditure of Rs. 6 lakhs would be Rs. 2.40 lakhs. Appropriate care would be taken to ensure that the amount being contributed by the Company was well-spent and proper controls were kept over the expenditure.

The Board approved and Resolved that the contribution of Rs. 2.40 lakhs towards, the Tata Refugee Relief Project (Bangla Desh), Jamshedpur, be and is hereby approved.

Propanganda Expenses for 1969-70

The Board sanctioned a sum of Rs. 25,000/- per propaganda expenses for the year 1969-70. The Board directed that this amount be held in a separate private account in the joint names of Mr. JRD Tata, Mr. J.J. Bhava and Mr. D.S. Seth and used, in Company's interest, at the discretion of the Chairman.

CHAPTER IV

SCHEME OF FINANCE

Revision in Scheme

- (4.01) In the applications made by the Company for an industrial licence under the IDRA and for permission for expansion under the MRTPA in December, 1970, it was indicated that the total capital cost of the proposed expansion programme would be Rs. 35.70 crores, including Rs. 10.5 crores in foreign exchange. In addition, a sum of Rs. 23 crores was expected to be required for raw materials etc. making up a total of Rs. 58.70 crores. To meet this requirement, Rs. 15 crores were expected to be available as a result of the amalgamation of the Central Bank of India with the Company, Rs. 10.50 crores by way of foreign exchange loans and the remainder—Rs. 33.20 crores were expected to become available by way of internal resources. This information was supplied to the Government in December, 1970. Further clarifications regarding this information were given to the Government in April and May, 1971.
- (4.02) In the meanwhile, certain changes in the taxation policy of Government occurred a a result of the financial proposals of the Government of India presented to Parliament in May, 1971. The most important aspects of these proposals which affected the scheme of finance of the Company were the proposed abolition of the Development Rebate with effect from 1974-75 and the withdrawal of the priority status granted to the automobile industry under the Income-tax Act of the as a result of which the income-tax payable in the profits of the Company increased. In the Chairman's statement attached to the Annual Report of the Company for 1970-71, and made in July, 1971 it was said
 - "We intend to finance this programme largely from internal resources and from the funds accruing to the Company from the merger with the Central Bank of India Ltd. With the withdrawal of the development rebate from 1974, and the increase in taxes payable under the new budget, the compnay's internal generation of funds will be appreciably reduced and we may have to curtail the scope of the programme, or spread it over a longer period. This only shows the extent to which the Finance Minister's belief, that the withdrawal of incentives to the Corporate Sector will not hinder growth is misconceived."
- (4.03) Even in the statement made before the High Court regarding the Central Bank amalgamation, the Compnay had stated that finance was the major problem and that the amalgamation proposed with the Central Bank was of great importance in meeting it. Even as late as September, 1971, in an answer to the Commission, the Company had stated that "in view of the various changes introduced by the 1971 budget, it was clear that the Compnay's internal generation of funds will be appreciably reduced and we may have to pread the expansion programme over a longer period."
- (4.04) Taking all these factors into account, the Company submitted a revised statement about the scheme of finance. This was submitted in October, 1971, and further clarifications of some of the statements were given at the time of the public hearing in November, 1971. These various information and their analysis are given in statements IV-I to IV-III and Tables IV-L to IV-Q.
- (4.05) In the revised statements, the Company has provided for a somewhat larger capital outlay in view of the fact that the actual price increases both in India and abroad had been beyond the original expectations. Even then the total estimate of capital cost for the expansion scheme has gone up only by about 14 per cent while the capital cost for replacements etc. has gone up by about 33 per cent. In any case, the total requirements of finance for capital purposes have gone up by about 25 per cent—i.e. from Rs. 67.11 crores to Rs. 83.98 crores.

Revised Scheme Analysed

(4.06) Leaving aside the foreign exchange part of these requirements for the time being, the sources for meeting these requirements are—a sum of Rs. 15 crores (later revised to Rs. 17.50 crores) to be obtained through the merger of the erstwhile Central Bank with the Company, and internal resources. With all the difficulties that the above mentioned statements of the Company referred to, one would have expected that, in the revised statements, internal generation of funds

would be found to be less than in the original scheme of finance and that therefore much difficulty would be faced in financing the scheme except on the basis of the import of outside funds into the Company. It is, therefore, surprising to note that this is not so. The internal cash generation is actually larger in the revised scheme and stands at Rs. 93.73 crores as against Rs. 80.45 crores in the original scheme.

- (4.07) The break up of the internal generation of funds year by year shows that the addition of one more year, 1977-78, to the period of expansion is a major factor to providing the additional funds from internal sources. It should also be noted that while the provision for depreciation for the period from 1971-72 to 1976-77 has actually declined a little and so also the accrual of development rebate reserves, the accretion to general reserves has increased from Rs. 10.69 crores to Rs. 15.81 crores during the same period. This is a little surprising and needs to be looked into.
- (4.08) The Company has taken the dividend to remain at the present rate. It has however assumed a ratio of profit to turnover which is almost the same as for the period 1966-67 to 1970-71. The average of the profit to turnover ratio was 3.55 per cent in this period. The scheme of finnace assumes that for the period from 1971-72 to 1975-76, it will be about 3.33 per cent. The Company has also assumed that the profit would begin to go down significantly, even in absolute terms, from 1975-76. While one can understand that profits after taxes would decline in 1974-75 as compared to the earlier year because of the abolition of development rebate, it is not quite clear why profits should go down after 1975-76 in absolute terms. While the turnover is increasing, the profits decline. The Company could not provide a statisfactory explanation for this at the public hearing. We may, therefore, ignore the declining profitability shown for the year 1976-77 and 1977-78. We are then left with the conclusion that the Company expects to maintain about the same average ratio of profit to turnover after expansion as it was obtaining before expansion. The implication of this is that the consumer will not significantly benefit as a result of the expansion. The profit margin would remain the same. That is the basis on which the Company expects to meet its financial requirements for expansion. Only on that basis can its accerction to reserves increase in the manner assumed in the financial projections put forward by the Company.

Price Policy

(4.09) In this connection, we should take note of the fact that, though the Company's output has been consistently expanding, at no stage has there been any reduction in the selling price. It is true that this is in keeping with the general trend towards rising prices in the economy as a whole. The Company has claimed that the price increases that have been effected since the abolition of price-control have been the minimum inevitable and that it has not overcharged the customer taking advantage of the preference of the customers for its vehicles. At the same time, the Company has not furnished adequate data to support its contention that the economics that arose because of its continuously increasing production have alone made it possible for it to keep the price increases limited—that they would have been much larger otherwise. Data given earlier in Chapter I have indicated that TELCO's price increases have been broadly in line with, or somewhat higher than, those for other producers of commercial vehicles—and this in spite of its capacity as well as output growing much faster. It is indicated in Table IV-7 that in the case of the 5 ton truck the difference between the selling price and ex-factory cost actually increased in the period after 1964-65 and that it went down only on the recessionary period. In the case of the 7-1/2 tons truck, the difference between selling the price and the ex-factory cost appears to have been maintained at around Rs. 1300 except when there were certain special circumstances regarding costs or demand.

Financing Investment

(4.10) Looking at the manner in which the Company has financed the investment on the creation of its present capacity, it is clear that it believes in building up a large capital value of on the basis of a small contribution of equity by the shareholders. Resources for financing Rs. 5943 lakhs invested on the creation of its present capacity have been found as follows:—

Rs. Lak	hs				•	
1100	•				18.5 per cent	Share Capital
350			•		5.8 per cent	Debentures
3093		•	•	-	52.0 per cent	Internal resources
1400	•				23.5 per cent	Long term loans (AID)

Thus on the basis of investing less than 20 per cent of the cpaital requirements, the Company has attempted to building up as net worth a large amount of capital. Directly or indirectly, the

consumer and the community bear the burden of providing the reamining part of the capital. Building up internal resources and repayment of loans become possible only on the basis of the difference between costs (including interest on loans) and the prices charged to the consumer.

- (4.11) That the applicant Company has adopted this as the best way of financing its growth is also indicated by the comparative data for Transport Equipment Companies for the year 1963-64 to 1967-68 (See Tables IV-8 & IV-9). It will be seen that the proportion of debt to capital employed as well as debt to equity has been significantly higher TELCO as compared to its competitors or to the average for the industry.
- (4.12) The Company has claimed that in its past financing, retained earnings as a proportion of capital employed have been quite low, and that they would have been smaller if there had been no Development Rebate. The annual average rate of retained earnings as a percentage of of capital employed (excluding current liabilities) during the last decade has been 1.7%. According to the Company, it should be quite evident that these rates are woefully inadequate for a capital intensive industry like the commercial vehicle industry". The Company points out that its Dividend rates have at no stage been stepped up; in spite of this, internal capital formation would have been well-high impossible, especially under price control, but for a concession like the Development Rebate.
- (4.13) But what is relevant is not retained earnings as a percentage of capital employed, but profitability. As Table IV.4 shows, except for one bad year, net profits as a percentage of net worth have been between 11% and 14% and as a percentage of share capital, between 17% and 23% in recent years. The comparative data for the period 1963-64 to 1967-68 (Tables IV.10 to IV.12) confirm that TELCO's profitability has not been very much higher than the average for the Transport equipment industry and much lower than that of Ashok Leyland and Hindustan Motors. But its dividends as a ratio of net profits have been higher (Table IV.13) so as to maintain a dividend rate higher than the average for the industry as a whole (Table IV.14). No wonder that the rate of retained earnings has not been very high-but the data given earlier show that it has been high enough to permit shareholders to build up a capital worth about five times their own contribution.
- (4.14) Little importance therefore needs to be attached to the Company's claim to financial virtue based on a low ratio of retained earnings. This is mainly the result of the attempt to keep the equity base small and pay good—not extravagant—dividends to the shareholders. One should also not overlook that the Company has also capitalised a part of its Reserves and issued bonus shares. White it need not be doubted that the Company's approach conforms to the tradiational approach to sound corporate finance, this approach cannot be considered sacrosanct in the context of the MRTP Act and a planned socialist economy.
- (4.15) In the new scheme of finance also, out of the capital requirements of Rs. 40.47 crores for the expansion scheme, not more than Rs. 9.38 crores would come by way of new share capital (Rs. 2.25 crores preference and Rs. 3.00 crores ordinary with Rs. 4.15 crores being paid as premium) and that on the assumption that the debentures that would be issued to the Central Bank shareholders would be converted into TELCO equity to the full permitted extent. To the extent that this does not happen, the equity would increase even less. All the remaining capital reqruirements of the expansion scheme are proposed to be met by way of loans or internal generation of funds both of which would in the final instance be paid for by the consumer and, to the extent that there is any special scheme similar to development rebate, by the community.
- (4.16) It therefore appears that either the profit margins would be maintained at a level where the consumer of the product will not obtains much direct benefit in terms of prices from the expansion, or alternateively there would not be this much accural to general reserves and therefore the scheme of finance would have to be modified. On either assumption, the proposed scheme of finance does not appear to be an appropriate one.

Increase in Bank Loans

(4.17) A further peculiar feature of the scheme of finance is that it assumes a very significant increase in bank advances. The revised scheme prepared by the Company assumes a very much larger increase in bank advances as compared to the original scheme. The result is that the proportion of bank advances to turnover which varied between 23 and 31 per cent in the period between 1966-67 and 1969-70 continues at similarly high levels in the new expansion phase. In absolute

terms, the Company's demand on banks for accommodation would increase very largely, from between Rs. 21 to 30 crores in the past to over Rs. 60 crores in 1976-77 and over Rs. 70 crores in 1977-78. We do not know whether making available such large amounts would fit in with the new credit policy of nationalised banks. In any case, to build up a scheme of finance on the assumption that the banks would provide such large amounts by way of short term credits is not appropriate.

Possible Purpose Behind Scheme of Finance

(4.18) A review of the Scheme of Finance—the original proposals and their revision—strongly suggests that the scheme of finance is worked out in such a way that resort to further additional equity or loans from public financial institutions is sought to be avoided. Even for a good Company like TELCO it may be fair to assume that new equity may have to be under-written and a significant part might devolve on public financial institutions. Loans from these institutions will carry a convertibility clause as per the new policy of Government. It appears that the scheme of finance has been based on certain over-optimistic or even unwarranted assumptions in order to avoid these possible contigencies. If these assumptions prove to be over-optimistic, the result might well be that the reliance on short term bank advances may have to be even larger than is assumed under the present scheme. It is quite apparent that once an expansion of this kind begins, it would be quite uneconomic both for the Company and for the country to allow it to suffer in terms of delay in completion for want of finance. But the net result of such a situation might well be that there is a further addition to the net worth build up in favour of the shareholders at the cost of the consumer and the community.

How to Finance Investment:

- (4.19) A general point which needs to be posed in this connection is whether it is appropriate that a large part of the burden of investment should be borne by the consumers of the product. Whatever is not financed from additional equity is in fact financed by the consumers. It is true that internal resources are built out of undistributed profits and to that extent represent prudence on the part of the Company which represents the shareholders. But is the shareholders are getting a reasonable dividend on their equity and are maintaining their capital intact through a proper scheme of depreciation, is there any justification for treating their plogughed-back profit as anything else than an amount mulcted from the consumers? A similar view can be taken about loans. The loans have to be repaid and the repayment is also done from reserves built out of profits. In that case also, it is the consumer who pays for the building up of this capital the owner his pof which vests in the shareholders. In the case of enterprises which face genunine and considerable competition, the possibility of making above-average profits for building up capital in this manner would only be open to an intramarginal efficient firm—not to every firm. But in a semi-monopoly or oligopoly situation—or in an administered market—most firms will be in a psosition to do this. Can this be considered to be fair?
- (4.20) These questions become of even greater importance in the case of a commodity like trucks. It has been claimed by the Company, and quite rightly, that the economic benefits to the society from increase in the supplies of commercial vehicles are much larger than those arising in the industry itself either in term of the production of trucks or in terms of the employment provided directly by the vehicles when they are in use. In the case of a product of this kind, would it not be more appropriate to keep only a small margin of profit just enough to pay a reasonable return on equity after allowing for depreciation etc. on a proper basis and provide for a large part of the expansion finance from additional equity?
- (4.21) Expansion based mainly or entirely on loans which have been available at comparatively low rates, and their repayment through a policy of building up reserves through the use of administered or monopoly prices has almost become normal in India. In oligopolistic or monopolistic markets, or markets which are insulated from foreign competition and where creation of new capacity is subject to licensing restrictions, this is a system with built-in devices to provide a substantial capital appreaciation to shareholder. While risk-capital should be entitled to return somewhat higher than those on loan-capital, should the scale be so much loaded in favour of the equity-holder, especially in a system where because of industrial licensing and import controls the risk is very much reduced?
- (4.22) It may be objected that creation of reserves from profits and their plough back for expansion are practiced all over the world and rapid industrial development has been a largely based on such corporate financial policy. While the historical truth of the proposition may be granted,

what cannot be overlooked is that, in India, out industrial growth is taking place in a planned system and under a deliberate policy of preventing undue concentration of economic power and inequalities in wealth and income. What may be standard practice in countries without such a policy cannot therefore be permitted to be one so here unless it is found to be in keeping with these overall goals and objectives. Permitting corporations to build large reserves, mainly at the cost of the consumer, which finance industrial expansion but at the same time lead to much capital appreciation in favour of shareholders is not necessarily in keeping with the overall policy that we have adopted.

- (4.23) It may be objected that capital formation will be jeopardised—and so also industrial growth—if this traditional approach to corporate finance is given up. That is not correct. In a society aiming at socialist objectives, an increasing part of savings has got to originate from the public exchequer. This has the advantage that the burden of saving for growth is mere equitably distributed. There is no obvious reason why the consumers of a product should necessarily pay for the future expansion of that line of production. If, in the case of a product, it is felt that there should be large margin between the prize and the cost, the proceeds must largly go to the exchequer from where they would be allotted according to broad national priorities. Some scope for building up reserves must be left in the financial scheme of an enterprise so as to provide an incentive to its management to reduce costs. But this cannot but be limited in mangnitude.
- (4.24) This is too large a subject to be further pursued here I think it necessary to draw attention to these points, however, because the approach to the scheme of finance otherwise is bound to be the traditional one, not in keeping with the objectives of the MRTP Act. The notion that it is only right that a company should be expected to finance a larger part of its investment from its own ploughed-back profits should not any longer be taken for granted. Capital must be maintained of course, and a genrous depreciation provision can take care of that. In TELCO, the value of plant and machinery is written off over a seven year period. But a rate of profit which exceeds 10% on net worth or 15-16% on equity cannot find justification especially in a monopoly situation. A scheme of finance based on such a rate of profit should not therefore be approved.
- (4.25) As would be apparent from Table IV.4, the scheme of finance proposed by the applicant Company assumes a rate of profit much higher than this. Approval of this scheme would provide an automatic device to benefit the shareholder greatly at the cost of the consumer and the community. A scheme of finance based on such as approach should not be approved.

Proposed Gross Profit Rate-Limitation Conditions

- (4.26) One suggestion made to the Company by my colleague Shri D. Subramanian was that the Company should agree to limit its gross profits for a period extending upto one year after the completion of the proposed expansion to the average for the three previous years. As has been indicated in the Main Report, the suggestion was that the pricing of the Company's products should be so arranged that during the period of expansion and one year thereafter the percentage of the gross profits on net sales before tax, depreciation and development rebate should not exceed 11.4 per cent—the average for 1968-69, 1969-70 and 1970-71. The Company, after considering the the suggestion, has agreed albeit reluctantly to limit the gross profit to turnover to the average of two years, viz., 1968-69 and 1970-71, pointing out that the results for the year 1969-70 were adversely affected by an 48 days strike. On this basis, the percentage of gross profit to turnover will work out to 11.85 per cent. The Company has agreed to adopt a price policy which would keep the profit limited to this base rate. My colleagues appear to consider that this is an adequate condition to be imposed on the the applicant Company.
- (4.27) What has been overlooked in this is the the fact that in the years 1968-69 and 1970-71, the rates of net profit to net worth were 13 per cent and 11.99 percent respectively, and those on share capital 22.1 per cent and 21.9 per cent respectively. While the Commission has not secured details about what the projected gross profit during the expansion period as seen by the Company is, it will be easily seen that the profitability as related to net worth and share capital will continue to be quite high even after the acceptance of the conditions on the lines proposed by my colleagues. (*)

^{*}Figures re: projected profit after tax for these years have been furnished by the Company and are given in Tables IV·3 and IV·4. The net profit as compared to turnover was 3.85% in 1968-69 and 2.96% in 1970-71, their average being 3.40%. We have already indicated earlier that their present projections assume an average net profit rate on turnover at 3.33% (1971-72 to 1975-76) as against 3.55% for 1966-67 to 1970-71). Thus the condition proposed is likely to reduce the projected profitability. Table IV.4 shows that the net profit as a percentage of net worth will be on an average 15.64% for the period from 1971-72 to 1975-76 and as a percentage of share capital, 32.4%.

In my view, the fact that the profitability was maintained at a certain level in the past is no justification for continuing it at about that level in the future. I have given adequate reasons to indicate that while the Company cannot be accused of unorthodox behaviour, the continuance of its past approach to financial and price policy cannot be justified in the context of the MRTP Act and the country's new approach to economic and social development. A limitation based on an average of previous years is not therefore adequate for the objective to be sought viz., to ensure that the consumer and the community should benefit much more from the proposed expansion than the shareholder.

Revision in Scheme Essential

- (4.28) It appears to me therefore that the Scheme of Finance as proposed by the Company needs basic revision. Nothing much needs to be said about the foreign exhenage requirements except that, if a direct foreign credit from the IBRD does not materialise, it may be necessary for Government to think of alternatives. The only care to be taken about the terms and conditions of any such foreign loans is that the consideration regarding such loans should not prevent the Government from undertaking the changes in the equity structure of TELCO and the consequent delinking of the Company from the Tata House.
- (4.29) The most important changes however will have to be regarding rupee finance. All our discussions indicate that it has been the Company's attempt to keep the equity down and to build up its capital mainly through loans and internal resources. This has crated various problems and uncertainties regarding its proposed Scheme of Finance. There is no reason why the Company should not think of meeting a substantial part of its financial requirements for expansion through loans from the public financial institutions which may be convertible into equity at the end of a five year period. A sizeable loan of the magnitude of Rs. 15 to 20 crores might enable the Company to go ahead with maximum permissible speed with its expansion programme. It would also being about a change in the equity structure as a result of conversion which would enable its effectively becoming a joint sector concern. Finally, such an approach would automatically eliminate the possible adoption of a price policy which would attempt to exploit the Company's predominent position in the supply of of commercial vehicles against the consumers. The Company will also have to keep in view the importance of providing positive proof that production on an increasing scale leads to cost reduction which leads to consumer benefit not only through product improvement but also through price reductions. The plea that bought out items constitute a large proportion of of cost is not an adequate argument against such a course. Ancillaries will also have economics of scale and a major consumer of their products like the applicant company should be in a position to obtain price reductions from them. The details of the price policy to be adopted are best left to the manage ment and the Government to work out from time to time. With the change in ownership structure and a different approach to finance, the Company may not have much temptation to misuse its position. In spite of this, if it is found that the Company is misusing its monopoly power, an enquiry can be und

STATEMENT IV.1

fata Engineering & Locomotive Company Ltd.—Sources and Uses of Funds

Description	1971-72	1971-72 1972-73 1973-74	1973-74	1974-75	1975-76	1976-77	1977-78	Total 1971-72		1979-80	1980-81
								to 1977-78	1978-79		
1	2	3	4	5	9	7	8	6	10	=	12
I. Sources: (a) Cash Generation (De-	10.40	12.77	13.85	13.17	13.68	14.93	14.93	93.73	14.56	14.75	15.02
(c) Funds from CBI Ltd. on meger	17.50	: 5	:	:	:	:	•	17.50	:	:	:
(d) New foreign exchange loans (to be negotiated)	1.53	0.47		2.60	4. 70	: 22	:	2.00	•	:	:
Total .	29.43	16.04	18.15		18.38	18.43	14.93	131.13	14.56	14.75	15.02
II. Uses:			기식에								
(a) 10tal Capital Expenditure 10.50 (b) Repayment of long term	e 10.50	12.50	12.84	10.35	18.48	15.46	3.85	83.98	5.00	9.00	9.00
loans	2.36	5.73	2.28	3.43	2.11	1.92	2.85	20.68	2.85	2.85	2.60
Total .	12.86	18.23	15.12	13.78	20.59	17.38	6.70	104.66	7.85	8.85	8.60
III. Surplus/Deficit After Meeting Capital Requirements:											
(a) For the year (b) Cummulating		-2.19	+3.03	+1.99	-2.21	41.05	+8.23	+26.47	+6.71	•	46.42
. Capital .	+10.3/ 10.24	+14.38 4.61	+17.41 3.40	3.6.9 19.9 19.9	+17.19 0.49	+18.24 8.62	+26.47 15.50	49.80	+33.18	36.08 30.08	+ 4 5.50 ::
V. Surplus/Deficit After Meeting Working Capital Requirements	nts				,						
(a) For the year	+6.33	-6.80	-0.37	4.95	-2.70	-7.57	7.27	-23.33		+5.90	+6.42
(D) Cumulative	+6.33	-0.47	4 .0	-5.79	8. £	16.06	—23.33		—16.62	—10.72	\$ 8

STATEMENT IV.2

Tata Engineering & Locomotive Co. Ltd.-Turnover

-										(Nupca III Groid)	Grone)
Description		1971-72	1972-73	1973-74	1973-74 1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
	1	2	3	4	5	9	7	8	6	10	11
Diesel Vehicles	•	119.22	129.92	137.08	150.15	150.20	169.18	204.87	204.87	204.87	204.87
Recovery of Excise Duty .		9.93	10.19	10.54	10.81	10.63	11.51	14.58	14.58	14.58	14.58
Automobile Spare Parts .		15.00	16.50	17.50	21.50	22.86	24.56	24.56	24.56	24.56	24.56
Excavators & Spares		8.00	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Other Engineering Products*	•	89.6	12.75	16.75	16.75	16.75	16.75	16.75	16.76	16.75	16.75
	1	161.83	178.36	191.87	209.21	210.44	232.00	270.76	270.76	270.76	270.76
		2 2 2 2				1					

*Includes Dumpers, Typpers, Fortlifts, Steel Castings, Machine Tools, Front end Loaders, Industrial Tractors, etc.

Statement IV.3

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1980-81	12		:	:	:
1979-80	11		:	:	:
1978-79	9 10 11		:	:	:
Total 1971-72 to 1977-78	6		27.97	12.50	40.47
T 1 1977-78	ω		:	:	:
Total 1971-72 1972-73 1973-74 1974-75 1975-76 1976-77 1977-78 1978-79 1979-80 1980-81	7		9.59	3.00	12.59
1975-76	9		1.22 4.72 1.78 2.12 8.54 9.59	1.30 2.80 1.40 4.00 3.00	1.22 6.02 4.58 3.52 12.54 12.59
1974-75	5		2.12	1.40	3.52
1973-74	4		1.78	2.80	4.58
1972-73	3		4.72	1.30	6.02
1971-72	2		1.22	:	1.22
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			ditur	to be	•
r o			E dx	iture inge	•
Description	-	•	ital I	pend	•
Des		A. Expension Projects:	Rupee Cap	(ii) Capital Expenditure to be financed by foreign exchange loans	(iii) Sub-total
		. Expensi	Ξ	Œ.	(iii)

STATEMENT IV. 3—Contd.

4		1	2	ñ	4	5	9	7	8	6	10	=	12
, E	Curren	B. Current Projects Including Replacements:	ħ			ŕ							
	€	Rupee Capital Expenditure	7.75	4.51	92.9	5.63	5.24	2.37	3.85	36.11	5.00	9.00	9.00
	(ii)	Capital expenditure financed by ICICI loan	1.53	0.47	:	:	:	•	;	2.00	:	•	:
	(iii)	Capital expenditure to be financed by additional foreign exchange loans	:	1.50	1.50	1.20	0.70	0.50		5.40	•	•	
	(iv)	(iv) Sub-total	9.28	6.48	8.26	6.83	5.94	2.87	3.85	43.51	5.00	9.00	9.00
				मेव						,			
ರ	Tota	C. Total 'A' & 'B'		नय									
	(<u>i</u>)	(i) Rupee Capital Expenditure	8.97	9.23	8.54	7.75	13.78	11.96	3.85	64.08	5.00	9.00	00.9
	(ii)	Capital Expenditure financed by ICICI loan	1.53	0.47	:	:	:		:	2.00	:	:	:
	(iii)	(iii) Capital Expenditure to be financed by additional foreign loans	. •	2.80	4.30	2.60	4.70	3.50	•	17.90	:	:	•
	(iv)	(iv) Total	10.50	12.50	12.84	10.35	18.48	15.46	3.85	83.98	5.00	6.00	6.00
İ													

TABLE IV.4

TELCO—Expansion Proposal—Scheme of Finance

(Rs. crores)

		As Indicated in Dec. 1970	As Indicated in October 1971
1.	Poona 9000 vehicles		
	Capital cost 25.7		N.A.
		(7.9 in f.e.)	
	Phasing of production	Begin 1974-75 End 1976-77	Begin 1976-77 End 1977-78
2.	Jamshedpur 3000 vehicles		
	Capital Cost 4.5 Phasing of Production	(1.6 in f.e.) Begin 1971-72 End 1973-74	N.A. Maintained.
3.	Setting up alloy iron found	ייי <u>י</u>	
	Capital cost .	. 5.5 (1.0 f.c.)	N.A
	Total capital cost for ex pansion:	- 35.7 (10.5 f.e.)	40.47 (12.5 f.e.)
		TABLE IV.5	(Rs. crore
	(i)	- 7/1/1/4/1	(ii)
1971 1976	1-72 to		1971-72 to 1977-78
Requ	uirements		
	(a) Expansion Schem 35.70	e सद्यमेव जयते	
	(b) Current Projects: 31.41	replacement etc.	40.47 43.51
	Total		99.00
Sour	67.11		83.98
	(a) Cash generation I	Depreciation Provision	00.00
	58.95	24-	69.20
	Development reb	410	6.18
	Accretion to gene	ral reserve	10 25
			18.35 93.73
Tota	Merger 15.00		17.50
			2.00
Tota CBI ICI loan			
CBI ICI loan New	Į.		17.99

⁽i) Estimate of April, 1971.

⁽ii) Estimate of October-November, 1971.

TABLE IV.6

Financial Projections

					1					(Rupe	(Rupes in crores)
		1970—71	1971—72	1972—73	1973—74	1974—75	1975—76	1976—77	1977—78	Total 1971-72 to 1976-77	Total 1971-72 to 1977-78
I. Turnover	Rev. Prev.	136.24 133.00	161.83 148.25	178.36 165.27	191.87 176.05	209.21 201.73	210.44 216.70	232.00 234.00	270.76	1183.71 1142.00	1454.47
II. Capital Expenditure	Rev. Prev.	8.18 6.32	10.50 10.29	12.50 19.08	12.8 4 20.00	10.35 8.03	18.48	15.46 2.44	3.85	80.13 67.11	83.98
III. Depreciation	Rev. Prev.	7.49	7.55	8.52	9.30	9.56 10.28	10.24 12.07	11.64	12.39	56.81 58.95	69.20
IV. Development . Rebate Reserve	Rev. Prev.	1.15 0.90	1.58 1.42	2.26	2.34	4.26	111	0.45	::	6.18 10.81	6.18
V. Accretion to Reserves	Rev. Prev.	0.53	1.27	1.99	2.21 1.84	3.61 2.56	3.44 2.18	3.29 1.99	2.54	15.81 10.69	18.35
VI. Cash Generations (III+IV+V) .	Rev. Prev.	9.17	10.40 9.58	12.77 11.62	13.85 11.88	13.17	13.68 15.42	14.93 14.85	14.93	78.80 80.45	93.73
VI. I-Profit after tax. Rev.	Rev. Prev.	4.03	5.43	6.83 6.08	7.13	6.19 9.40	6.34 6.25	6.19	5.44	38.11 37.62	43.55

Nore-Rev.' indicates revised figures.

'Prev,' indicates previous figures.

TABLE IV.7 Profitability Ratios

			29-99	67-68	69-89	69-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78
Turnover	•	Rs. in lakhs	9065	9500	10590	9935	13624	16183	17836	19187	20921	21044	23200	27076
Net worth		\$	2872	2966	3139	3178	3361	3824	4249	4704	5065	6014	6343	6597
Shareholders' Capital		2	1845	1845	1845	1845	1845	1950	1950	1950	1950	2179	2179	2179
Profit after tax	•		430	329	408	274	403	543	683	713	619	634	619	544
Profit as % of (i) Turnover.			4.74	3.46	3.85	2.76	2.96	3.36	3.83	3.72	2.96	3.01	2.67	2.01
(ii) Net Worth			14.97	11.09	13.00	8.62	11.99	14.20	16.07	15.16	12.22	10.54	9.76	8.25
(iii) Share Capital			23.3	17.8	22.1	14.8	21.8	27.8	35.0	36.6	31.7	29.1	28.4	25.00
						TABL	TABLE IV.8							
		1966— 67	1967— 68	1968 1	1969—	1970— 71	1971—	1972— 73	1973—74	1974— 75	1975— 76	1976— 77	Total 1 to 1	1970—71 1976—77
Turnover	06 .	90.65	95.00	105.90	99.35	136.24	161.83	178.36	191.87	209.21	210.44	232.00	1183.71	17
Profit after tax	₹.	4.28	3.28	4.08	2.73	4.03	5.43	6.83	7.13	6.19	6.34	6.19	38.11	=
Development Rebate		1.87	1.82	1.84	1.43	1.15	1.58	2.26	2.34	:	:	:	6.18	8
Accretion to reserves	<u>ر</u> . ´	0.07 (Negative)		(Negative) (Negative) 0.53	(Negati	ve) 0.53	1.27	1.99	2.21	3.61	3.44	3.29	15.81	
Dividend		2.34	2.35	2.35	2.20	2.35	2.58	2.58	2.58	2.58	2.90	2.90		

TABLE IV.9

TELCO—Projections re: Scheme of Finance

(in crores)

		Year				7	Furnover	Short-term Bank Loans Revised Estimate	Previous Estimate	Short-term Bank Laons (as %age of turnove Revised Estimate	Estimate
							(1)	(2)	(3)	(4)	(5)
				-	·	-	Rs.	Rs.	Rs.	Rs.	Rs.
196667			•				90.65	21.19	21.19	23.4	
1967—68		•		• .			95.00	26.65	26.65	28.0	
196869				• .			105.90	27.83	27.83	26.2	
1969—70							99.35	30.84	30.84	31.0	
197071							136.24	15.29	15.29	11.3	
1971—72	•	•	•	•			161.83	(+10.24) 38.24	(+5.00) 33.00	23.63	20.39
1972—73	•	•			•	É	178.36	(+4.61) 42.85	(+4.00) 37.00	24.02	20.74
1973—74	•	•	•	•	•	. 6	191.87	SAL 56-20 TA	(+3.00) 40.00	24.11	20.85
1974—75	•.	•	•	•	•	. 1	209.21	(+6.94) 53.19	(+`7.00) 47.00	25.42	22.47
197576	•	•	•	•		•	210.44	$(+\ 0.49)$ 53.68	(+5.00) 52.00	25.01	24.71
1976—77	•	•	•	•	•	-/	232.00		(+5.00) 57.00	26.85	24.57
1977—78	•	•	•	•	•	- 1	270.76	(+15.50) 77.50	57.00	28.73	21.05

TABLE IV.10

				Ex-fact	ory cost*	Selling	Price*	Differ	ence
		Year		Model L.312/42 (5 tonne)	Model L.1210/42 (7½ tonne)	Model L.312/42 (5 tonne)	Model L.1210/42 (7½ tonne)	(3—1)	(4-2)
				(1)	(2)	(3)	(4)	(5)	(6)
				Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
196061		,	•	22,408	• •	24,557		2,149	
196162				23,511	• •	25,234		1,723	
1962—63	•			24,431		25,924		1,493	
196364		•		26,141		27,296		1,555	
196465				26,179	27,147	27,342	28,497	1,163	1,350
1965—66		•		27,912	29,110	29,388	30,478	1,476	1,368
1966—67				30,262	32,213	32,170	33,593	1,908	1,380
1967—68		•		32,347	34,624	33,380	34,793	1,033	0,169
1 968 —69		•		32,520	34,668	34,275	35,976	1,755	1,308
1969—70				35,275	37,337	35,090	37,340	185	0,003
1970—71				37,340	39,470	38,296	40,373	956	0,903

^{*}The costs and selling prices are averages for the year and are exclusive of excise duty.

TABLE IV.11

Percentage ratio of debt to Total Capital Employed

		1963—64	1964—65	1965—66	1966—67	1967-68	1963—64 to 1967—68
TELCO		61.25	64.09	60.67	63.40	66.95	63.72
HIND MO		20.47	32.50	31.54	53.98	61.02	39.90
ASHOK LEY	•	31.64	18.48	26.55	32.65	32.51	28.37
PREMIER AUTO .		52.07	59.89	59.37	62 .96	65.08	59.87
MAHINDRA & MA.		62.34	59.92	64.53	59.78	66.13	62.56
ALL TRANSPORT EQ	UIP-	47.56	50.77	50.23	54.29	58.17	52.20

Source: Top 300 Companies; Economic & Scientific Research Foundation—(ESRF).

TABLE IV.12

Percentage Ratios of Debt to Equity (TOP 300 COMPANIES)

		1963—64	1964—65	1965—66	1966—67	1967—68	1963—64 to 1967—68
TELCO .		158.00	178.46	154.28	173.24	202.53	173.32
HIND MO.		25.75	48.15	46.08	117.27	156.56	178.76
ASHOK LEY		46.29	22.67	36.14	48.48	48.16	40.35
PREMIER AUTO.		108.66	149.30	146.15	170.00	186.35	152.09
MAHINDRA & MA.		166.52	149.47	182.75	148.61	195.26	168.32
ALL TRANSPORT E MENT	EQUIE	90.70	103.14	100.90	118.76	139.09	110.52

Source: Top 300 Companies-ESRF.

TABLE IV.13

Percentage ratio of Gross Profits to Total Capital Employed

				1963—64	1964—65	1965—66	1966—67	1967—68	1963-64 to 1967-68
TELCO .	•			9.30	8.93	7.68	8.60	4.78	7.86
HIND MO.			•	20.98	20.12	19.45	11.01	5.77	15.47
ASHOK LEY.	•			7.91	22.27	20.16	10.33	12.47	14.63
PREMIER AUT	гo.			2.69	3.05	4.39	0.91	0.04	2.22
MAHINDRA &	MA			11.04	17.83	11.23	7.46	5.62	10.64
ALL TRANSPO MENT	ORT	EQ	UIP-	11.02	11.89	11.59	. 8.68	5.39	9.71

Source: Top 300 Companies-ESRF.

⁵¹⁻⁸ M of LJ&CA/ND/79

TABLE IV.14

Percentage ratio of Gross Profits to Sales (Top 300 Companies)

				1963—64	1964—65	1965—66	1966—67	1967—68	1963—64 to 1967—68
TELCO .		•		7.84	7.24	6.00	6.84	4.16	6.42
HIND MO.				8.97	9.42	10.84	9.59	7.19	9.20
ASHOK LEY.				6.14	10.82	10.13	6.43	7.08	8.12
PREMIER AUT	ro.	•		2.29	2.95	3.18	0.84	0.04	1.86
MAHINDRA &	MA	HIN	IDRA	6.33	8.10	6.53	4.85	4.26	6.01
ALL TRANSPO MENT	RT •	EQI	UIP- ·	7.95	8.20	8.04	7.02	4.84	7.21

Source: Top 300 Companies—ESRF.

TABLE IV.15

Percentage ratio of NET PROFITS Total Capital Employed (Top 300 Companies)

			<	6	1963—64	1964—65	1965—66	1966—67	1967—68
TELCO	•	•	•	100	2.39	5.05	4.64	5.94	3.98
HIND MO	•		•		10.70	15.24	14.44	10.96	5. 77
ASHOK LEY .	•	•		ø	5.43	12.09	11.31	6.00	8.21
PREMIER AUTO	•	•		C	1.58	1.59	4.27	0.91	0.04
MAHINDRA & M	AHI	NDRA			4.76	7.07	4.77	4.40	2.78
ALL TRANSPORT	EQ	UIPME	NT		4.58	6.50	6.69	5.83	3.95

Source: Top 300 Companies-ESRF.

TABLE IV.16

Percentage ratio of DIVIDENDS to Net Profits

			1963—64	1964—65	1965—66	1966—67	1967—68	1963—64 to 1967—68
TELCO	•	•	138.46	57.93	66.32	54.91	61.43	77.81
HIND MO			63.09	34.81	31.88	22.97	33.33	37.22
ASHOK LEY			69.57	46.08	48.70	77,22	46.51	57.62
PREMIER AUTO) . .		0.00	75.68	42.86	187.50	00.00	61.21
MAHINDRA & MAHINDRA		•	61.36	50.75	62.96	69.49	80.00	64.91
ALL TRANSPOR MENT .	Τ Ε ζ	QUIP.	65.72	47.30	47.12	47.63	53.91	52.34

Source : Top 300 Companies-ESRF.

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TABLE IV.17

Percentage Ratio of Dividends to paid-up Capital

	•		1963—64	1964—65	1965—66	196667	1967—68	1963—64 to 1967—68
TELCO			12.02	12.10	11.65	12.74	12.74	12.25
HIND MO		•	11.49	12.47	12.47	12.47	12.50	12 28
ASHOK LEY	•	•	6.44	8,51	10.14	9.06	7.70	8.37
PREMIER AUTO	•	•	0.00	3.78	6.05	6.04	0.00	3.17
MAHINDRA & MAHINDRA	•	•	10.67	13.44	13.44	12.85	9.68	12.02
ALL TRANSPORT MENT	EQI	JIP-	8.36	9.48	10.20	9.75	8.18	9.21

Source: Top 300 Companies-ESRF.



CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

- (5.01) As indicated in the Introduction, the expansion proposal under enquiry can be looked at as possibly (i) adding to the monopoly power of TELCO in the commercial vehicles industry and (ii) adding to the concentration of economic power as represented by TELCO in the first instance, and possibly by the Tata Group as a whole to which TELCO belongs, in the second instance.
- (5.02) Our examination of these aspects has established clearly that, as a result of the proposed expansion, the applicant Company is likely to dominate the commercial vehicles industry even more than it does at present and further that there is alsost a built-in provision for the dominance to grow further through expanding the capacity of the proposed new plant at Poona. TELCO itself is at present the second or third largest private sector company in the country. Admittedly it belongs to the Tata group which is also the largest business group in the country and which also includes the Tata Iron and Steel Co. Ltd., the largest private sector undertaking in India. While it has not been possible to establish conclusively that TELCO is interconnected with TISCO and other Tata companies, it is not apparently denied by the Company that it belongs to the Tata group. Therefore its further expansion cannot but add to the concentration of economic power represented by that Group.
- (5.03) Our examination of the Company's case as well as the overall problems regarding the commercial vehicles industry in the country support the conclusion that there are sound technical and economic reasons in justification of permitting the proposed expansion. The most important point in the Company's favour is the dynamic management which it has built up. This is a valuable growth potential. At the same time, there are two producers of commercial vehicles in the country, viz., Premier Automobiles and Hindustan Motors, whose installed capacity continues to remain underutilised to a significant degree. This is especially so in the case of Hindustan Motors. From all the evidence available, there is strong prima facie evidence to suggest that this continued waste of national capital resources is mainly due to the poor quality of the management of these concerns. The Government cannot ignore the importance of activising this existing capacity, especially in view of the location of Hindustan Motors in West Bengal. At the same time, holding up TELCO's expansion till this is done might unduly handicap the consumer of commercial vehicles and might also have an adverse effect on the quality of TELCO's own management.
- (5.04) An important question that may be raised is whether, even if it is admitted that the expansion of TELCO would lead to further concentration of economic power, would this be to the common detriment? While one cannot be a soothsayer, it should be pointed out that with the proposed expansion and in view of the further expansion that is bound to follow, TELCO will dominate not only the production of commercial vehicles but the automibile industry as a whole. This may even be desirable for building up exports and generally to ensure technical progress. But it cannot be overlooked that this provides great potential powers in the hands of a private management which can be misused. The whole approach of the country's new economic policy is based on the assumption that large concentration of economic power in private hands cannot but be potentially to the common detriment. The magnitude of the total purchases that would be made by the Company, the total employment, direct or indirect, that would be offered, the contracts of various kinds that it would provide, even its advertising and propaganda expenditure, would be so large as to provide great power for potential misuse. Such power residing in TELCO itself might be potentially dangerous and needs to be counteracted, but there may be at least some technical justifications for it. The addition of such power to the economic power already concentrated in the Tata Group has no justification whatsoever. I specifically asked the representatives of TELCO at the public hearing whether, if TISCO's share holding in TELCO was removed, TELCO would suffer in anyway. Their answer was in the negative. TELCO is not likely to lose much if it is delinked from the House of Tatas. On the other hand, if its link continues, it would very much add to the power of the House of Tatas.
- (5.05) Taking all these considerations into account, it is my view that while permitting the proposed expansion of TELCO, steps must be taken for an effective delinking of TELCO from the Tata group. In essence this involves that TISCO's shareholding in TELCO should be liquidated.

In order to ensure that there is an Indian shareholder who has proportionately a larger share of equity than Messrs. Daimler-Benz who hold 15 per cent, the best course would be for TISCO's shareholding to be transferred to one or more public financial institutions on a mutually agreed basis. This would also be the first step towards making TELCO an effective example of a Joint Sector concern.

- (5.06) Such a step would have many advantages because a dynamic concern, carefully nurtured and developed, would be available for supporting the further development of the national automobile industry. As far as the present management of TELCO is concerned, the only effective change that the delinking from Tata House might involve would be that the wholetime Directors will have to make a choice between remaining with TELCO or working with other Tata companies. With the change in the equity pattern as suggested, other links with the Tata group of companies can be modified or removed as necessary in course of time.* The most important advantage of this change would be that a way would be found to use TELCO's dynamic management for revitalising the management of the other two units producing commercial vehicles. I have already suggested that this may be done if possible through the use of the shareholdings of public financial institutions, or alternatively even through the use of the powers under the Industries Development and Regulation Act.
- (5.07) Regarding the Scheme of Finance, for reasons already discussed in detail, it should undergo a major revision. Regarding capital requirements, it is necessary to ensure that provision is made for adequate capacity to produce spare parts including foundry items. On the resources side, the Scheme should rely less on internal resources based on maintaining a high degree of profitability, and on short term bank loans in large amount. The Scheme would do better to include a request for a large convertible loan from public financial institutions, the exact amount being determined by discussion between the Government and the Company.
- (5.08) This has been one of the most interesting and also important enquiries entrusted to the Commission. Many problems have come up regarding its conduct, and certain procedural issues regarding the working of the Commission and the interpretation of the MRTP Act have also been high-lighted in the process. TELCO and other Tata companies, albeit after protests, fully cooperated with the Commission in the conduct of the enquiry. On the Commission's own side, our

"The approach of our colleague, Dr. Paranjape, has been to find out some means or other of removing totally or in part the control of the present management of the company consisting mainly of Shri J.R.D. Tata and Sri Moolgaokar".

There are a number of other statements in the majority report about my approach and opinions. I shall leave the judgement about them to those who study the two reports.

^{*}In this connection, in the majority report of the Commission, my colleagues have stated as follows:

deficiency in research support was considerably made up by the ability and devotion to the conduct of the enquiry shown by our principal officials, Shri R.D. Saxena, the Director of Investigation, and Shri T.N. Pandey, Deputy Secretary.

(Sd./) (H.K. PHARANJAPE) (Member) 14-12-71

True Copy
(Sd./) T.N. PANDEY,
Deputy Secretary
M.R.T.P. Commission,
New Delhi

BEFORE THE CENTRAL GOVERNMENT

In the matter of the Notice under section 21 of MRTP Act from Tata Engineering & Locomotive Company Ltd. for expansion of its capacity for manufacture of commercial vehicles from 24,000 Nos. to 36,000 Nos.

Tata Engineering and Locomotive Company Ltd. (hereinafter referred to as "TELCO") gave on 2nd January, 1971, a Notice dated the 29th December, 1970 under section 21 of the Monopolies & Restrictive Trade Practices Act, 1969 (hereinafter referred to as "the Act") of its intention to effect substantial expansion in the manufacture of commercial vehicles by increasing its annual installed capacity from 24,000 Nos. to 36,000 Nos.

- 2. TELCO has registered itself under section 26 of the Act as an undertaking falling under section 20(a) (i) and section 20(b) (i) thereof. It is a dominant undertaking in the manufacture of commercial vehicles with a market share of 61% in 1969—70.
- 3. The estimated cost of the project as given in its Notice is Rs. 5870 lakhs including foreign exchange requirement of Rs. 1050 lakhs for import of plant & equipment. The finance required on the expansion scheme was expected to be met from the following sources:—

	Rs. in lakhs
(a) Funds expected as a result of amalgamation of TELCO with Central Bank of India Ltd.	
	1,500
(b) Eoreign exchange loan to be negotiated for import of plan & equipment	1,050
(c) Internal resources	
(i) Depreciation 2,160	
(ii) Development Rehate Reserve 560	
(iii) Reserves 600	3,320
	5,870
	

- 4. The Central Government, on the basis of the information available, were of the opinion that no order under section 21(3)(a) of the Act could be made without a further inquiry. Accordingly, in exercise of the powers conferred under clause(b) of sub-section (3) of section 21 of the Act, the Central Government referred the matter to the Monopolies & Restrictive Trade Practices Commission (hereinafter eferred to as "the Commission") for inquiry and report. The Commission recommended approval of the proposal of TELCO subject to certain conditions.
- 5. Two advertisements were published by TELCO, one in "the Times of India" dated the 17th February, 1971 and the other in the "Indian Trade Journal" dated the 10th March, 1971. No representations in response to these advertisements were received. An opportunity of being heard in terms of section 29 of the Act was given to the company and the Life Insurance Corporation of India which had disclosed interest in the proposal.
- 6. Having taken into consideration the recommendations of the Commission as also the views put forth by the representatives of TELCO at the time of the hearing, the Central Government are satisfied that the proposed expansion and the revised scheme of finance submitted by the company to the Commission are not likely to load to the concentration of economic power to the common detriment and the expansion is also not likely to be prejudicial to the public interest for the following reasons:—
 - (i) The market share of TELCO which was 61% in 1969—70 on the basis of actual production would go down to 35% on the basis of the sanctioned capacity, if the expansion proposed by M/s. Ashok Leyland and TELCO and the new capacity proposed by M/s. Insov Auto Ltd. were implimented,
 - (ii) Requirement for defence purposes of the trucks produced by TELCO and the satisfactory service of the vehicle supplied by them.
 - (iii) Preference among Government indentors for TELCO vehicles.
 - (iv) The company takes great care to see that proper qualities of raw materials are maintained in its own manufacture as well as in the parts supplied by ancillary industries.
 - (v) The company has built up adequate technical skill and also ensures the production of vehicles which would give long and trouble free service.
 - (vi) It would be some years before the other two companies—Hindustan Motors Limited and Premier Automobiles Limited—could even reach their existing capacities.

The Central Government are, accordingly, satisfied that it would be expedient in the public interest if approval to the proposal of TELCO is accorded subject to the conditions stipulated hereinafter in the Order.

ORDER

The Central Government in exercise of their powers under clause (c) of sub-section 3 of section 21 of the Monopolies & Restrictive Trade Practices Act, 1969 hereby approve the proposal of Tata Engineering & Locomotive Company Ltd. for effecting substantial expansion in its capacity for manufacture of commercial vehicles from 24,000 Nos. to 36,000 Nos. per annum party at Jamshedpur & partly in the new factory to be set up at Poona, on the basis of the scheme of finance submitted by the applicant company to the MRTP Commission subject to the following conditions:—

- (a) The Company should not augment any capacity in their present plant or instal new capacity in the new plant for manufacture of any of the following items:
- (i) Connecting rod bushing
- (ii) Fuel tank cap
- (iii) Rediator cap
- (iv) Exhaust muffler
- (v) Exhaust pipe
- (vi) Tail pipe

- (vii) Oil filter
- (viii) Leaf Springs
- (ix) Spring and Bolts
- (x) Spring Centre Bolts
- (xi) Spring shackle pins
- (xii) Spring seat
- (xiii) Wire Harness, and
- (xiv) Hydraulic jacks.

The Company should confine the production of the above items to meet their requirements for their present licensed capacity for original equipment and their actual production in 1970 for the replacement market only and gradually leave the production of these traditional ancillary items to the ancillary sector.

- (b) Subject to satisfactory supply of Defence requirements, the Company should undertake to expert vehicles and spare parts thereof to the extent of 20% of the added capacity in addition to their present level of exports so that the value of total export should reach a minimum of Rs. 20 crores when the expansion are fully implemented.
- (c) The phased manufacturing programme should be settled to the satisfaction of Government. Every effort should be made to ensure that the value of imported components does not exceed Rs. 500/— for each vehicle within a period of three years.
- (d) The period for which the company gives warranty in respect of commercial vehicles should be revised to cover:
 - (i) the period during which a vehicle shall have travelled a total distance of 32,000 Kms (or 20,000 miles); or
 - (ii) a period of six months from the date of first registration of the vehicles under the Indian Motor Vehicles Act; or
 - (iii) a period of 12 months from the date of despatch of the chassis from the factory, whichever period expires first.
- (e) The expansion of 12,000 vehicles should be reached as early as possible and in any case, not later than 31st March, 1978.
- (f) The highest priority should be given to the setting up of the machinery for the manufacture of spare parts with the help of the imported machine tools covered by the licence issued to the company on 3rd August, 1970, and every effort should be made to expand the production of spare parts to the maximum extent by 31st March, 1973.
- (g) The economies of scale achieved by the expansion programme should be passed on to the consumer. For this purpose, the pricing of the products should be arranged in such a way that the rate of gross profit arrived at after allowing interest but not allowing the depreciation, development rebate and taxation, should not in the period of expansion and one year thereafter exceed the base rate of such gross profits to net sales in the years 1968—69 and 1970—71 which has been worked out by the company itself at 11.85%.
- (h) The company would provide manufacturing facilities for the manufacture of 3,000 Nos. of 4 × 4 vehicles per annum.
 - (i) In case the company takes loans from financial institutions, the latter will have the discretion to insert a convertibility clause in the respective loan agreements according to the approved policy of the Government.

(S. BALARAMAN)

Undersecretary to the Govt. of India

Department of company affairs

REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF TELERAD PRIVATE LIMITED, BOMBAY



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Report of the Monopolies and Restrictive Trade Practices Commission under section 21(3)(b) of the M.R.T.P. Act, 1969, in the case of Telerad Pvt. Limited for Effecting substantial Expansion in the Manufacture of Tape Recorders and Record Players and Changers

CHAPTER I

INTRODUCTION

- 1.0 Telerad Pvt. Ltd. (Telerad), Saki-Vihar Road, Chandivli, Bombay-72, submitted three applications under section 21(2) of he MRTP Act, 1969, to the Government of India, Department of Company Affairs for grant of industrial licences for effecting expansion by undertaking the manufacture of (i) tape recorders, (ii) record players and record changers and (iii) 16 electronic components.* The first application was submitted on June 29, 1972, and the latter two on August 18, 1972.
- 1.1 The Government of India, Department of Company Affairs, vide its letter No. 1(38) 72-M(III), dated December 8, 1972, referred the said applications to the MRTP Commission under Section 21(3)(b) of the said Act for enquiry and report.
- 1.2 In terms of section 30(2) of the MRTP Act, the Commission was to submit its report to the Central Government by March 6, 1973. The time had to be extended to May 12, 1973, as there was delay in getting the requisite information from the concerned Government Departments, the applicant and some of the existing/intending manufacturers of the products under reference.
- 1.3 Telerad, vide its letter dated February 22, 1973 to Department of Company Affairs, withdrew its application regarding 16 electronic components. In its questionnaire to the applicant, the Commission had put the undermentioned questions to the company:
 - (a) Some experts are of the view that 12 of 16 electronic components which you intend to manufacture could be produced by medium and small scale units. In view of this, the Commission would like to know why a large unit, especially one belonging to a larger industrial house, should be allowed to manufacture these parts. Please give specific reasons to support your argument in each case separately.
 - (b) The remaining four components (out of 16 applied for) are motor miniature, magnetic heads for tape recorders, T.V. turner and EHT sockets. In case you are allowed to manufacture only these four parts, would you still be interested in undertaking their production?

*The sixteen electronic components were:

- 1. cabon potentiometers
- 2. wirewound potentiometers
- 3. variable gang condensers
- 4. band change switches (miniature type, rotary and piano key type, push button and slide button)
- 5. loudspeakers
- 6. wirewound resistors
- 7. microphones
- 8. deflection coils
- 9. EHT transformers
- 10. T.V. tuners
- 11. linearity coils
- 12. EHT sockets
- 13. valve bases
- 14. motors miniature type
- 15. cartridge for record players
- 16. magnetic head for tape recorders

1.4 The Department of Company Affairs vide its letter No. 1/39/72-M(III), dated March 15, 1973, advised the Commission that Telerads application in respect of 16 electronic components may be treated as withdrawn. Therefore, the present Report deals with the remaining two applications of the applicant pertaining to (i) tape recorders and (ii) record players/changers.

Applicant Company

- 1.5 Telerad was incorporated in September 5, 1957, when Shri Anant Raj Valia and Shri Khatiwala purchased in auction the equipment of Tesla Radio Factory. In November, 1969, the shareholders of Telerad offered their entire shareholding to Sarabhai Sons Pvt. Ltd. (SSPL). The shares of Telerad, held by SSPL, were purchased by Sarabhai M. Chemicals Pvt. Ltd. (SMCPL) in 1970-71. Telerad thus became a fully owned subsidiary of SMCPL.
- 1.6 The applicant company has industrial licences for the manufacture of 2 lakh wireless radio receiver sets and 10,000 T.V. sets per annum. The production of radio receiver sets has been much less than the licensed capacity throughout the comapany's existence, i.e. from 1962 onwards. Upto 1969, the minimum number of radio receiver sets produced was in the year ending August 31, 1967 and it was only 30,658. The position has improved considerably since then in as much as Telerad produced 67,092 radio receiver sets in 1972-73 as compared to 36,578 in 1971-72. This is specially notable because the radio industry as a whole has been facing demand difficulties during these years. It is, however, apparent that even now the company has a very substantial (66.5%) idle capacity. It may be added that Telerad is one of the 18 units registered with DGTD for the manufacture of radio receiver sets. In terms of both the licensed capacity and actual production, its share in the radio receiver industry is small.
- 1.7 Telerad was one of the four units which the Government of India initially licensed for the manufacture of T.V. Sets. The company's production of T.V. Sets has made substantial progress inasmuch as it produced 10,029 T.V. sets in 1972-73 which is a little higher than the licensed capacity of 10,000 sets per annum. In the year 1972-73, Telerad's production of T.V. Sets more than doubled—it increased from 4,306 sets in 1971-72 to 10,029 sets in 1972-73. Telerad's share in the total number of sets produced in the country up to July, 1971 was 22.9%. Although Telerad has been approved for enhancing its capacity to 20,000 sets per annum, its share in the industry as a whole is likely to be reduced as new units including the Electronic Corporation of India—a public sector undertaking—have recently gone into production. The Department of Electronics has approved 74 units—11 in the large scale and 63 in the small scale sector—with a total envisaged capacity of 2.96 lakh T.V. sets. Telerad's share of this total approved capacity is only 6.8%.
- 1.8 Explaining its comparatively poor growth in the radio receiver industry, the applicant has stated:—

"Due to continued differences and dissensions among the directors, several good engineers and well trained staff left the organisation, seriously affecting the development department and manufacturing activities of the company. With great difficulty, Telerad continued to have up to end of 1968 its normal share in the valve radio business but that was also fast dwindling.

As the company was not able to bring out any new good models, the factory was running at five days a week and large number of employees were retrenched. Due to the financial stringency there was no flow of raw materials and components and on several occasions the production line had to be stopped. Equipment ordered for the T.V. manufacture was lying in bond and it was not being released for want of finance.

There were several legal suits pending against the company from the suppliers, contractors and ex-directors. The components' manufacturers were supplying components only against cash. The Telerad radio dealers all over the country had begun to lose interest in Telerad products'.

a number of measures have been taken to improve its operational working. The number of workers has gone up from 360 as on December 1, 1969, to 1010 as on December 1, 1972. The physical facilities have been expanded at a total cost of Rs. 53.74 lakhs. Production and quality control facilities have been expanded at a cost of Rs. 24.07 lakhs. This has enabled the applicant to introduce new models of transistor sets and make improvements on the T.V. model licensed to it by the Central Electronics Engineering Research Institute, Pilani. In addition, Sarabhai Electronics Research Centre, Ahmedabad, which is a part of a sister concern called Sarabhai Technological Development Syndicate Pvt. Ltd., Ahmedabad, is also doing developmental work for Telerad.

1.10 The applicant has informed the Commission that with the expanded physical facilities, Telerad is having an installed capacity for manufacture of two lakh (plus 25%) radio receiver sets, and is already equipped to produce 20,000 (plus 25%) T.V. sets per annum except for some balancing equipment which will have to be imported.

Expansion Programme

- 1.11 The applicant has a large expansion programme which is at various stages of development and implementation. It had applied for expansion of its capacity in the manufacture of T.V. sets from 10,000 to 100,000 sets; but the Government has approved a capacity of only 20,000 sets per annum. When this expansion programme is carried out, it will be one of the three units in the country having a capacity of 20,000 sets of T.Vs. per annum. Although it has not received an actual licence for the enhanced capacity, this expansion has been approved by the Central Government under the MRTP Act, 1969.
- 1.12 Telerad applied to the Central Government on June 17, 1970, for the manufacture of 12,500 close circuit television cameras and 20,000 units of connected networks. The company has stated that "we are given to understand that we are likely to get licence for only 100 systems and accordingly were granted an exemption under Section 21(4) of the Monopolies and Restrictive Trade Practices Act. The same was approved vide letter No. 10/4/71-M(III), dated 4-12-1972 from the Company Law Board. We are awaiting the letter of intent from the Department of Electronics." An application was made by the company on February 16, 1972 for an industrial licence for the manufacture of 50,000 T.V. cartridges player-cum-recorder and 50,000 cartridges.

Holding Company

- 1.13 Sarabhai M. Chemicals Pvt. Ltd. (SMCPL) (formerly known as Sarabhai Merck Ltd.), the holding company of Telerad, was incorporated on May 28, 1958, as a private limited company. The company was a public limited company between March, 1961 and November, 1970. E. Merck Darmstadt, West Germany, held 35.91% of the equity capital of the company and the remaining capital was held by the Sarabhai family. SMCPL entered into a technical collaboration, agreement with E. Merck Darmstadt for the manufacture of vitamin 'C', sorbitol and fine chemicals In July, 1969, the collaboration agreement was terminated and the equity holdings of E. Merck Darmstadt were bought by the Indian shareholders. In November, 1970, the company obtained the permission of the Central Government to its becoming again a private limited company. SMCPL owns the entire share capital of Telerad and also of Sarabhai Sons Private Ltd.
- 1.14 SMCPL manufactures and sells vitamin 'C', Sorbitol and 600 other items of laboratory chemicals and fine chemicals. It has a monopoly in the manufacture of vitamin 'C'. Since 1967, the overall licensed as well as installed capacity of SMCPL has expanded substantially. The value of its total sales increased from Rs. 192 lakhs in 1967-68 to Rs. 384 lakhs in 1971-72.
- 1.15 SMCPL has applied to the Central Government for the expansion of capacity in its existing product lines and also for the manufacture of new products. The important projects for expansion are: regularisation of capacity at 240 tonnes [as against the existing (1971) licensed capacity of 180 tonnes] and expansion to 480 tonnes in respect of vitamin 'C'; expansion of capacity from 1070 tonnes to 2140 tonnes in respect of sorbitol; manufacture of bulk drugs and their formulations with a capacity of 15.2 tonnes; and manufacture of chlorocholine chlorides with a capacity of 100 tonnes.
- 1.16 The financial position of SMCPL is very sound. While its subscribed and paid-up capital is Rs. 41.25 lakhs, its reserves and surplus as on March 31, 1972, amounted to Rs. 149.63 lakhs.

Financial Structure of Telerad

1.17 Telerad has an authorised capital of Rs. 75 lakhs and its issued and subscribed capital as on March 31, 1973 was Rs. 60 lakhs. The detailed break-up of authorised and issued capital is given below:

Authorised Capital					(Rs. lakhs)
50,000 equity shares of Rs. 100 each .			•		50.00
10,000 9% cumulative Redeemable Prefere					10.00
15,000 Unclassified shares of Rs. 100 each					1 . 00
				·	75.00

Issued and Subscribed Capital

50,000 equity shares of Rs. 100 each			50.00
$10,\!000$ 9% cumulative Radeemable Preference shares of Rs. 100 each	•	•	10.00
		-	60.00

1.18 The financial position of the company has been unsatisfactory. The net worth of Telerad as on March 31, 1972, was minus Rs. 20.63 lakhs, as compared to Rs. 18.31 lakhs a year back. It has large accumulated losses. For the year ending December 31, 1969, when Telerad's shares were purchased by SSPL, its losses amounted to Rs. 12 lakhs. As compared to Rs. 46.44 lakhs as on March 31, 1971, the accumulated losses have sharply increased to Rs. 86.67 lakhs at the end of March, 1972. The details regarding its net worth as on March 31, 1972 are given below:—

	**								(R	s. lakhs)
Fixed Assets		•	•		•			•	50.97	
Investments	•	•								
Current Assets .	•	•					•	•	116.45	167. 42
Less			. 53	Cine.						
Current Liabilities and	Provisio	on É	25H		2			• .	53.57	
Loans	. ₹ •	16				•	•		134.48	188.05
Net worth		. 1			99	•	•			()20.63
Represented by:			W		1					
Share Capital		• 10	12	(27)	<u>.</u>	. •			60.00	
Reserves and Surpluses	•	. /	137		M.	•	•	•	6.04	
Less Accumulated Loss	ses .	1	CIRCLE !						(—)86.67	(—)20.63
					-					

Shareholding Pattern

1.19 The shares of Telerad are entirely held by SMCPL which is, as shown below, a closely held company of the Sarabhai family.

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Shareholding Pattern of SMCPL

	Name of shareholders				r			Shares held	Percent- age
1.	Karamchand Premchand Pvt. Lt	td. (an	inte	-conn	ected	comp	any)	15	0.18
2.	Bank of India, Ahmedabad Bran the Sarabhai family and their rel	ch (on latives)	beha	alf of	the m	ember •	s of	3,206	38.90
3.	Sarabhai Family and Relatives	•	•	•	•	•	•	5,029	60.92
							_	8,250	100.00

^{1.20} The applicant has admitted interconnection with 10 other companies. According to the Note prepared by the Department of Company Affairs for the Advisory Committee, the value of assets of these 11 interconnected companies was Rs. 37.73 crores as on March 31, 1971. The

details of authorised capital, paid up capital and value of assets of the 11 interconnected companies as on March 31, 1971 are given below:—

(Rs. lakhs as on March 31, 1971)

S.No	Name and address	Authorised Capital	Paid-up Capital	Value of Assets
(1	(2)	(3)	(4)	(5)
1.	Sarabhai M. Chemicals Pvt. Ltd., Shahibag House, Shahibag, Ahmedabad	50 .00	16.50	292.13
2.	Synbiotics Limited, Shahibag House, Shahibag, Ahmedabad	150.00	75.00	300.79
3.	Sarabhai Sons Pvt. Ltd., Shahibag House, Shahibag, Ahmedabad	30.00	26.00	117.93
4.	Sarcon Pvt. Limited, Shahibag House, Shahibag, Ahmedabad	75.00	64.72	147.09
5.	Vegoils Pvt. Limited, 13, Walchand Hirachand Marg, Ballard Estate, Bombay	100.00	100.00	159.90
6.	Standard Pharmaceuticals Ltd., 67, Dr. Suresh Shankar Road, Calcutta-14	100.00	80.31	300.55
7.	Sarabhai Technological Development Syndicate Pvt. Ltd., Shahibag House, Shahibag, Ahmedabad	1.00	0.08	31.01
8.	Bakubhai Ambalal Pvt. Ltd., 13, Walchand Hirachand Marg, Ballard Estate, Bombay	10.00	1.00	36.46
9.	Travellers Limited, 13, Walchand Hirachand Marg, Bombay-1	2.00	2.00	4.81
10.	Karamchand Premchand Pvt. Ltd., Shahibag House, Shahibag, Ahmedabad	300.00	296.00	2254.78
11.	Telerad Pvt. Ltd., Sahi Vihar Road, Chandivli, Bombay-72	75.00	60.00	127.66

^{1.21} Two of the companies, namely, Suhrid Geigy Ltd. and Suhrid Geigy Trading Company Limited, are said to have been registered under section 26 of the MRTP Act along with the above mentioned 11 companies only by way of abundant caution.

^{1.22} In connection with an earlier application (Systronics) on behalf of SSPL, it had been stated that the Group did not consider that it was 'interconnected' with the Ahmedabad Manufacturing and Calico Printing Company Ltd., which was managed by Karamchand Premchand Pvt. Ltd., up to April 3, 1970. In view of the fact that Karamchand Premchand Pvt. Ltd., has ceased to exist as managing agents of Ahmedabad Manufacturing and Calico Printing Company Ltd., and its subsidiaries, Gujarat Nets Ltd., Ilac Limited, Rajinder Dyeing and Printing Mills Ltd., and Verma Industries, Limited, SSPL claimed that the former was no longer an interconnected company as per the definition of interconnected undertakings under the MRTP Act. Similarly, the Group has not accepted interconnection with Shilpi Advertising Ltd., Suhrid Geigy Ltd., and Suhrid Geigy Trading Company Ltd., on the ground that none of these companies fall within the definition of interconnected undertakings envisaged in the said Act, In addition, there are nine other companies of the Sarabhai Group as listed by ILPIC which, according to the present interconnected Group, do not fall within the definition of undertakings as defined in the MRTP Act.

⁵³⁻⁸ M of LJ & CA/ND/79

Research and Development Facilities

- 1.23 Telerad has established a fairly well equipped R & D Division. All the facilities in this regard have been built up by the new management since it took over in November, 1969. Prior to that date, according to the applicant, "there was hardly any activity related to research and development due to absence of both qualified staff and test equipment." Keeping in view both the short and the long term needs of the company, the following sections have been established in the R & D Division:
 - (i) Television Circuit Development;
 - (ii) Radio Circuit Development;
 - (iii) Mechanical Design and Drafting Office;
 - (iv) Workshop for Mechanical Fabrication;
 - (v) Type approval Laboratory for all the Mechanical and Electronic components; and
 - (vi) Library of technical books and periodicals.
- 1.25 Apart from its own R & D Division, Telerad also draws up on the research facilities of Sarabhai Electronic Research Centre (SERC), Ahmedabad, and Operations Research Group (ORG), Baroda, which have been set up by STDS—an interconnected company of the Sarabhai Group. SERC was established in 1970 with the main objective of undertaking research and development projects capable of commercial utilisation. It is concentrating its activities in production electronics: electronic instruments, digital and logic circuits, cathode ray oscilloscopes and photocopying machines. In connection with the merger case of SSPL and SMCPL with Telerad, it had been stated that SERC has engaged itself primarily in the development of products manufactured or proposed to be manufactured by Telerad. It has developed a closed circuit television camera and its monitor and auxiliary equipment. SERC has also completed development of high fidelity audio system amplifiers and loudspeakers. It has completed technical assessment of four speed record changers and produced prototypes of a ceramic pick-up for the record changer.

Management

1.26 Telerad is managed by a Board of Directors who are assisted by the senior executives of the company. The applicant has stated that "the Chairman functions as Chairman of the Board of Directors as well as Advisor and General Coordinator and is entrusted with corporate planning. The Chief Executive is being supported by a Technical Director and he is also the member of the Board. There are various functional managers looking after production, sales, research and development, purchase, accounts and workshop." From the qualifications of the Directors, it can be seen that the company is being managed by a group of competent professionals.

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BOARD OF DIRECTORS

Name				Qualification	Functions
Mr. P.V. Kale	•	•		B.A., LL.B.	Chairman of the Board of Directors. Corporate Planning and Advisor and General Co-ordinator.
Mr. M.N. Parikh .		•		B.Com. F.C.A.	Chief Executive.
Mr. G.R.S. Rao		•	•	M.Sc.	Technical Director.
Dr. D.L. Subramanyam	•			M.Sc. Ph.D.	Director, Research and Develop- ment.
Mr. P.N. Shah	• .	•		B. Com., LL.B.	Finance and Legal.

^{1.27} While, as stated by the applicant, Telerad is not sharing management personnel with its holding company, namely, SMCPL, it draws its top management personnel from STDS—an interconnected company—which "maintains a pool of highly trained technical and commercial and administrative executives whose services are made available to the company (Telerad) as and when required." It may be pointed out that all the five Directors on the Company's Board of Directors are employees of STDS and their services have been seconded to Telerad.

1.28 As regards the training policy of the company, it has been stated that—

"We have been following consistant policy of recruiting personnel on a very large scale. At the operative levels, bright young persons of relevant and appropriate qualifications are being recruited and trained for their respective jobs over a period ranging from three months to two years depending on the job and the skill as well as the progress made by each individual. It may be worthwhile to mention here that in order to meet a comparatively new and not easily available skill for servicing television sets in Bombay, we had made a comprehensive training programme of 6 months in advance by recruiting various diploma and degree holders in the Electronics fileds. They were given both theoritical class-room lectures and extensive in plant training before each one of them was sent out to take charge of our 15 Service Centres in the Bombay area. Similarly, with the expansion of Radio and Television activities we recruited a large number of boys and girls fresh from the institutes or schools and taken for varying duration. Those who have successfully completed their training periods are being confirmed from time to time in their specified jobs and specified grades. For supervisory and senior positions in general, we follow the policy of promotion from within for all positions of responsibilities in the respective fields as well as marketing and administrative services."

However, for top management, as has been stated earlier, the Company continues to depend upon STDS.

CHAPTER II

APPLICANT'S CASE AND OBJECTIONS TO IT

2.0 Telerad has applied for permission to undertake the manufacture of (i) 50,000 record players/record changers and (ii) 50,000 tape recorders per annum. The proposed lines of manufacture are considered by the applicant similar to its existing lines of manufacture. The addition of these lines, the company feels, will result in optimum utilisation of existing manufacturing, distribution and marketing facilities. The implementation of the expansion proposals will generate new employment for specialised personnel and earn valuable foreign exchange through exports.

Production Programme

2.1 The applicant plans to produce three types of tape recorders as under:

"Two Speed Tape Recorders—These are made in 2 and 4 tracks. The two speeds give them facility to play long when used for reproduction of speech and as such makes it usable for all purposes in teaching rural education, demonstration, libraries, etc. and the other speed (faster) is used when music is to be recorded making it usable by various domestic consumer advertising agencies etc. This being the type suitable for majority use we have planned 30,000 pcs./year of this type.

"Three Speed Tape Recorders.—These are also available in 2, 4, 8 tracks and another faster speed is added to give Hi-fidelity sound reproduction for professional usage. This is also used in long distance communication when message is recorded slow speed is transmitted and received at a faster speed and replayed at a slower speed. This being a professional equipment, we have planned 10,000 sets/years.

"Cassettes Tape Recorder.—This has advantage of light weight, compact size and easy operation. This is basically a consumer product but sound reproduction is not as good as in reel to reel type tape recorder. This has good utility as dictaphone, portable consumer instruments and hence we have planned for 10,000 sets/year."

- 2.2 The applicant intends to produce 40,000 record players and 10,000 record changers. No other details have been furnished in this regard. The actual product-mix for each of the two lines of production may be changed by the applicant as a consequence of change in the pattern of demand. This was stated by the representatives of the company in the public hearing.
- 2.3 The applicant has envisaged a three-phased programme to reach the capacity applied for. The details of the same are given below:

(Quantity in Nos.)

								Phase I	Phase II	Phase III
A.	Tape Recorders									
	(i) Two Speed (Mains or	Por	table)		•			20,000	25,000	30,000
	(ii) Three Speed (Mains)		•		•			5,000	10,000	10,000
	(iii) Cassette	•	•		•		•		5,000	10,000
					Тот	AL		25,000	40,000	50,000
В.	Record Players and Changers						_			
	(i) Record Players .		•				•	8,000	20,000	40,000
	(ii) Record Changers		•	•	•	•	•	2,000	5,000	10,000
					Тот	AL		10,000	25,000	50,000

It has been stated that it will take about 18 months after the receipt of all the required licenses to reach the first phase as indicated above.

Employment Potential

2.4 The two proposals for record players/changers and tape recorders have an additional employment potential for 481 persons. The break-up of this has been given as follows:

Total	Tape Recorders	Record Players/ Changers						f Job	tegory o	Categ	
4.7	1	3			•		•	•		Managerial	(i)
•										Supervisory	(ii)
37	10	27		•	•	•		•	cal .	(a) Technical	
11	6	5	•	•	•	•	•	•	chnical	(b) Non-techn	
30	10	20	٠			•			•	Clerical .	(iii)
y t					19%					Labour	(iv)
154	24	130				12	.5		•	(a) Skilled	
195	15	180		3			6	•		(b) Semi-skille	
30	10	20	٠	3		•	- 63	•	ed .	(c) Unskilled	
20	5	15	•				10	•	ies .	Other categories	(v)
481	81	400	•	OTAL	T	W					

Technical know-how

- 2.5 Telerad has expressed willingness to undertake the manufacture of tape recorders and record players/changers without any foreign collaboration or imported technology. The applicant has claimed that the manufacture of the products under reference "would be a logical extension to our (their) existing lines of manufacturing radio and television receivers." It has been emphasised that the applicant is in a position to develop these products on its own as it has a well-equipped R & D set up and can also draw upon the research and development facilities available at SERC, Ahmedabad. In the case of record players/changers the applicant has further stated that "the basis process in production being common to our existing lines of manufacture, we have the required experience and as such no gap thereto exists. Our engineers are fully capable of developing the product. As such we do not envisage any technical gap and we are confident we should be able to provide necessary expertise within our resources for manufacture of the product."
- 2.6 The applicant (vide letter dated April 24, 1973) has indicated the progress of record changers and tape recorders projects in the following words:

"We have studied the various type of Record Changers that are currently in the market. We have developed one Record Changer and manufactured one prototype which has been evaluated for the technical performance and for production capability. This work is expected to be completed in the very near future. We are now ready to take up tool work to manufacture various mechanical components required for these Record Changers. SERC is at present engaged in the production of components drawing and the accuracy to which they should be made. As soon as these drawings are released we will have the tools manufactured and produce a few production prototype which will again be evaluated from performance point of view. For this purpose we will be testing Record Changers both with imported as well as indigenous cartridges.

"We have evaluated the available cassette type of Tape Recorders and observed the various points of weakness. We are going to use one of the two cassette type decks manufactured within the country and samples of these are awaited. Using one hand-produced cassette

dock we have added electronic portion to this and this hand-made prototype is under test now. As far as reel to reel tape recorders are concerned, the only work that has been done so far has been on drawing board in workingout the various alternatives of the electronic circuit and testing out separate substances. The compatibility of the various substances has not yet been taken on hand. This work will be taken up after the work on cassette for the Tape Recorders is completed. There are various switches and controls that are used in the reel to reel as well cassette type of Tape Recorders. We are at present testing the samples from various manufacturers to prove whether these samples stand up to the required specifications."

2.7 At the time of the public hearing of the case, representatives of the applicant company did however, state that if they were expected to produce tape recorders and export them on a large scale, it may be useful for them to obtain technical know-how from abroad on a once-for-all payment basis.

Ancillary Development

2.8 The applicant company intends to purchase a very large proportion of the components and parts required in the manufacture of tape recorders and record players/changers. Although, in the beginning, it will have to import some parts and components from outside India, the applicant will substitute them with indigenous supplies as and when available within the country. In the case of tape recorders the applicant has explained the position, in broad terms, regarding what it will produce on its own and what it will purchase from outside. This statement is reproduced below. Similar information in the case of record players/changers has not been supplied by the applicant company.

Tape Recorders

(i) Mechanical Deck (To be assembled in our factory but the usual turn parts, moulded parts will be subcontracted to small scale ancillary units).

(ii) Driving Mechanism

(The motor and driving head will be imported to begin with and will be replaced by indigenous source. We shall put in all efforts in locating indigenous suppliers for the

(iii) Recording and Playback Circuit Assembly (The Assembly will be done in our factory

The Assembly will be done in our factory but majority of the components will be purchased by us as is done in case of our Radio and TV Receivers.

The Magnetic Heads, etc. to begin with, will be imported and gradually replaced by indigenous parts as soon as these are available).

(iv) Control Panel

(This will contain the various control knobs, jackplugs etc. The majority of these components will be purchased from ancillary units).

(v) Cabinet Assembly

(All styling materials and plastic cabinets will be purchased from sub-contractors and only assembly would be done by us. In addition to above all packing material and raw materials will be purchased by us from the local market).

2.9 In support of its contention, the applicant has indicated that in so far as its existing lines are concerned, Telerad purchased 87% of the parts and components from 110 units located in different parts of the country, with as many as 60 of them located in Bombay. The total value of materials, parts and components purchased from outside units more than trebled between 1970 and 1972. The value of these purchases increased from Rs. 23.11 lakhs in 1970 to Rs. 90.02 lakhs in 1972. The important parts bought out by Telerad are carbon resistors, wire wound resistors, electrolytic capacitors, polyester capacitors, styroflex and mica capacitors, switches, ferrite pins and cores, taper capacitors, ceramic capacitors, loud speakers, potentiometers and volume controls, transistors, valves,

wires, sockets, solder wires, laminations, styling items, dials, cartoons etc. It may be added that a large number of these parts and components will also be required in the manufacture of tape recorders/record players and changers. Overall, it has been indicated that 87% of the parts and components required in the assembly of products under reference will be bought from outside sources.

2.10 In reply to a question, the applicant informed the Commission that it encourages the development of ancillary units by providing them assistance and facilities such as supply of raw materials, partly processed re-fabricated components for further processing, and technical know-how, drawings, tools and dies. Financial assistance is also occasionally provided and where necessary, the company co-ordinates the production of special items by two or more ancillary units.

Foreign Exchange Requirements

- 2.11 No additional expenditure on land and buildings is envisaged. Of the total fixed capital cost of Rs. 29 lakhs, the applicant would require imported plant, machinery and instruments valued at Rs. 11 lakhs—Rs. 5 lakhs in the case of tape recorders and Rs. 6 lakhs in the case of record players/changers. The remaining plant would be indigenous.
- 2.12 In addition, the applicant envisages import of raw materials, parts and components on a recurring basis which will cost Rs. 9 lakhs in the first phase, Rs. 9.50 lakhs in the second phase and Rs. 11 lakhs in the third phase. In terms of percentage, the same works out to 33.4, 20 and 15.1 respectively of the value of the total requirements of raw materials and parts and components. Itemwise details of requirements of imported raw materials, parts and components are given in Table I.

TABLE I

Annual Requirements of Raw Materials, Parts and Components of Record Players | Changers and Tape
Recorders

(Rs. in lakhs) Total Percentage Indigenous Imported of Imports Phase I 30% Record Players/Changers 7.00 3.00 10.00 10.95 16.95 35.4% 6.00Tape Recorders 33.4% TOTAL 17.95 9.00 26.95Phase II Record Players/Changers 19.6% 20.50 5.00 25.50 21.0% 16.90 4.5021.40 Tape Recorders 20.0% 37.40 9.50 46.90 TOTAL Phase-III 9.8% Record Players/Changers 46.00 5.00 51.00 21.0% Tape Recorders 22.55 6.00 28.55 79.55 15.1% 68.55 11.00 TOTAL

^{2.13} The items which the company expects to import on a recurring basis are: fibre-glass, zener diodes and transistors—other than those made in the country, valves and diodes not made in the country, gang potentiometers, microcrystaline adhesives, prespex sheets, rods and tubes, cold rolled, cold annealed deep drawing steel sheets, special quality alluminium sheets, metal oxide film resistor and capacitors, recording and erase heads, balancing meters and micro switches, laminations, cartridges, miniature resistors, capacitors, band switches, stainless steel tubes, and sheets, moulding powder, acrylic powder and sheets and trap switches etc.

2.14 The applicant has claimed that as a result of establishing a production capacity of 50,000 record players/changers and 50,000 tape recorders, it will save foreign exchange to the extent of Rs. 217.50 lakhs. The figures related to net inflow and outflow of foreign exchange, as furnished by the applicant, are given below:—

Foreign Exchange Savings

(Rs. in lakhs)

Description	CG Imp. CIF	RM Imp.	Total Imp.	Export Earnings- CIF	Imp. Sav- ing CIF	Total Foreign Exchange Savings	Yearly Earnings CIF
Tape Recorders .	5.00	20.00	25.00	82.50	80.03	162.50	139.50
Record Players/ Changers	5.00	5.00	10.00	30.00	25.00	55.00	50.00
TOTAL .	10.00	25.00	35.00	112.50	105.00	217.50	189.50

Note:-Imp. relates to imports.

- 2.15 The claim regarding import saving to the extent of Rs. 105.00 lakhs is misplaced as the import of both the products is banned and only a small quantity is allowed in for professional use. However, if the copany is able to export a substantial part of its total production, there will be net earning of foreign exchange even if it is allowed to import raw materials and parts and components to the extent it has envisaged in its applications. Moreover, the applicant is prepared to be governed by the general Government policy in this regard. In its letter dated April 12, 1973, it has stated that the "list of materials and components for import are already scrutinised by DGTD while issuing import licence for raw materials and components as per the policies laid down from time to time." By implication, it means that the applicant is not asking for any special treatment but would like to be treated on par with other producers of these products.
- 2.16 When asked to indicate the year when it will be able to do away with recurring imports, the applicant has stated: "At this stage it is difficult for us to indicate the time of doing away with the import but we have in mind to achieve the target as soon as possible. As has been proved by experience in the past in cases of radio and television line, as speedy import substitution will be quite feasible". The applicant is also aware of the fact that "a few components like magnetic heads for recording, miniature meters etc. are under development by other component manufacturers like Electronic Corporation of India Limited, M.R. Electronics, Guest Keen Williams, and Morrise Electronics." Obviously, when these components are available in the country, it is expected that the Government will not allow, their import.

Export Obligation

2.17 In the applications made to the Government under the IDRA, the applicant company had not made any commitment about exports of the new products. However, when the Government wrote that its proposals can be considered only when it made a commitment of exporting 60% of its production after some initial hesitation it agreed to this export obligation. In this connection the applicant company, vide its letter dated April 12, 1973 has explained the position in the following words:

"The condition of 60% Export Guarantee was as a part of Government policy and, therefore, it is only our duty to work towards the fulfilment of the same, once we accept the condition attached to the licence. The Department of Electronics obviously before recommending out case have taken into consideration the capabilities of exporting these items. In any case, we would like to mention that in retrospect, Radio Receivers have also faced similar situation to confront with International Brands of Radios, latest technology in the 'transistor era', and the pricing structure of Indian goods versus International goods. There are, however, always some sports in the world, where determined efforts could be made to make a break-through to gain export market. It is also obvious that to meet the technological challenge, we will have to steer ourselves by continuously developing technology."

- 2.18 On the basis of its preliminary assessment, the Commission felt doubtful about the possibilities of finding an export market to the extent envisaged in the case of the applicant company and other existing and intending manufacturers of tape recorders and record players/ changers. Therefore, the Commission sought clarifications from the applicant. From the replies received by the Commission, it appears that the export prospects for the products in the near future are not bright. The applicant company has continuously stated that it will make concerned efforts to build up an export market; but it has also made it clear that it is ready to accept even a 60% export obligation because the Government indicated that only on that basis can its application be considered.
- 2.19 According to Telerad, "It will, however, take, once the production is established in the indigenous market, about a year or two to develop and compete in the export market." When asked to explain the prospects for the proposed products in the international market, the applicant company has stated:

"Although it may appear difficult to make a break-through in the export market for a product range in which several of the advanced countries have made tremendous progress both in terms of technology as well as cost economies due to their large scale and diversified operations, however, it has been proved in the past in more than one commodities that if substained efforts are made and adequate and timely export promotion schemes are implemented with the assistance from the Government it has been possible for the country to make in roads into some of the difficult areas. There are several economic and political factors which have assisted the country in selling Indian products such as sewing machines, fans, refrigerators, radios and transistors etc."

"It may be pointed out that the prospects of export also depend on the intake of higher technology, stable political situation both within and without, retaining the competitive economics by way of large scale production and optimum use of existing resources and the export oriented policy of the Government. We are fortunately placed to have a very stable Government dedicated to export oriented economy, sustained by well thought out export promotion schemes and thus, in our view, it should be possible to attain satisfactory export market for the proposed products."

- 2.20 The company has also indicated that the following factors are conducive to the building up of an export market for the products under reference:
 - (i) "The advanced countries of the world and the leaders in the respective fields are concentrating their attention to more sophisticated equipment which leaves enough room for India to fill the gap particularly in the newer developing countries having very large population and which are continuously improving their economic growth and therefore, generating sufficient purchasing power.
 - (ii) Consumer electronics being labour intensive industry we have an advantage of providing operatives and supervision at a more favourable cost than the international brands can do abroad.
 - (iii) In view of the existing infra-structure facilities and sufficient skills available, we are willing to face the competition with confidence.
 - (iv) The export promotion policies of the Government go a great deal in assisting export of such products in meeting the competition."
- 2.21 In further support, the applicant informed the Commission that the Sarabhai Group of companies "has an excellent record of export performance in traditional and non-traditional items." It has also been indicated that it is confident of fulfilling its export obligation just like other companies of the Sarabhai Group. Telerad's exports of radios and parts were valued at Rs. 1.38 lakhs during 1971-72. The value of goods exported by the various companies "under Sarabhai Management" (including Telerad) amounted to Rs. 124 lakhs, Rs. 149 lakhs and Rs. 114 lakhs in 1970, 1971 and 1972, respectively. In 1971-72, for which such figures have been furnished a very large proportions of the total exports was to countries in Africa and Middle East. It is in some of these countries that the applicant company is thinking of building up an export market for tape recorders.

Economies of Scale

2.22 The applicant company has stated that tape recorders and record players/changers are allied to radio receiver sets and T.Vs which are at present being manufactured by Telerad. It 54-8 M of LJ&CA/ND/79

has, therefore, claimed that the requirements of fixed capital and cost of production would be significantly lower for the applicant company in comparison to a new undertaking. The applicant has worked out two sets of figures regarding the requirements of fixed capital and cost of production in respect of tape recorders produced on the basis of capacities of 10,000 or 50,000 pieces per annum. In case the applicant is permitted to establish a capacity for 50,000, the cost of production, and hence the price to be charged to the consumer, will be lower than in the case of a capacity of 10,000 tape recorders. The relevant figures, as furnished by the applicant, are given below:

2.23 Economies in Fixed Capital

(Rs. in lakhs)

			Existing Unit (Telerad) N								
	(Tape Rec	corder	Record Play	er/Tape Re Changers		Record Player/ Changer				
		At 10,000 capacity	At 50,000 capacity	At 50,000 capacity	At 10,000 capacity	At 50,000 capacity	At 50,000 capacity				
Land & Building . Plant and Machinery	•	Nil	Nil	Nil	6.0	6.0	15.0				
(i) Indigenous		3.0	10.0	8.0	15.0	23.0	18.0				
(ii) Imported		3.0	5.0	6.0	6.0	10.0	8.0				

It is shown from the above table that the investment required for an existing unit (Telerad) for the manufacture of 10,000 and 50,000 Tape Recorders per annum would be Rs. 6 lakhs and Rs. 15 lakhs respectively. The corresponding figure for a new unit would be Rs. 27 lakhs and Rs. 39 lakhs respectively. Similarly, fixed investment requirements for a new unit for the manufacture of 50,000 Record Players/Changers would be Rs. 41 lakhs in comparison to Rs. 14 lakhs in the case of an existing unit (Telerad).

2.24 Economies in Revenue Costs

The saving by way of revenue costs is indicated by the figures given below:

(Rs. lakhs)

	,	Fape Record	ers		Record Players/ Changer		
•	50,00	0	10,00	ю	50.00		
r	Separate	Incre- mental	Separate	Incre- mental	Separate	Incre- mental	
	1	2	3	4	5	6	
(i) Salaries & Wages	19		6	4	10	5	
(ii) Stores & Spares, Power							
& Fuel, Repairs & Maintenance	10	4	2	1	4	2	
(iii) Depreciation	3	2	2	1	6	ī	
(iv) Interest	18	7	4	2	10	4	
(v) Other Overheads:							
(a) R & D	5	5	3	2	5	2	
(b) Administrative .	9	6	4	1	6	2	
(vi) Selling & Distribution	26	18	14	6	24	11	
Total .	92	51	35	17	65	27	

Projected Consumer Prices

2.25 As a consequence of the economies in fixed investment and revenue costs, the applicant company has estimated the consumer prices as under:—

(In Rupees)

							New	Unit	Existing Unit	
							At 50,000 Capacity	At 10,000 Capacity	At 50,000 Capacity	At 10,000 Capacity
A—Tape Record	er						 		· · · · · · · · · · · · · · · · · · ·	
(i) 2 SPD							800	900	620	700
(ii) 3 SPD			•	÷			1000	1100	760	900
(iii) Cassette			, •	• .	•		800	800	540	600
B—Record Player	rs/Ch	angers								
(i) Record I	Playe	r	•		•		200	• •	180	
(ii) Record (Chan	ger			•	•	500		400	

2.26 The above figures indicate that with a capacity of 50,000 sets per annum, Telerad expects that it will be able to offer 2 SPD, 3 SPD and Cassette tape Recorders cheaper by 22.5, 24.0 and 32.5 percent respectively in comparison to a new undertaking. The corresponding figures work out to 22.3, 18.2 and 25.0 percent respectively if the capacity is limited to 10,000 tape recorders. In the case of record players and changers, Telerad claims that it will be in a position to offer them to consumers at prices which will be lower by 10% and 20% respectively as compared to a new producer.

Public Interest

2.27 In connection with the fulfilment of criteria laid down in Section 28 of the MRTP Act, 1969, the applicant has stated that—

"the object of the MRTP Act is to ensure that the operation of the economic system does not result in the concentration of economic power to the common detriment or any monopolistic or restrictive trade practices. The only relevant question therefore in our submission, would affect the position of the company in respect of the two criteria relevant to the Act. The manufacture of the products by us will not place us in any monopolistic position and since the Government of India is encouraging the manufacture of these products in the country, we submit that it is not against public interest that these products are manufactured. The manufacture of the products would create employment and increase production in the country. Both these objects are socially advantageous in the national interest."

- 2.28 The applicant has also stated the consideration which make its proposals to be in the public interest. These are given below:
 - (i) Optimum Utilisation of Existing Facilities

"Telerad already being in the field of consumer electronics such as Radio and Television the addition of range of products of similar nature will result in optimum utilisation of manufacturing distribution and marketing facilities."

In support of the above argument, the applicant has stated:—

"There is a complete identity between the existing lines of production of the company and the lines envisaged. The technology, the plant and machinery required for the manufacture of the products are the same for the envisaged lines as for the existing lines of production of the company. Thus while Radio and Television are important tools of mass media essential in national development, the Record Changer/Player and Tape Recorder are also very helpful in dissemination of information, education as well providing entertainment to a wider range of public."

"We have development disciplines and professional skills in electronic industry and therefore the manufacture of these items would be a logical extension to our existing lines of manufacturing Radio and Television Receivers and would involve only incremental capital and revenue expenditure".

With regard to the relative advantage that the applicant will have in distribution and marketing of the products it has stated:

"We also have a large distribution network and marketing organisation spread all over the country and therefore we are in an advantageous position to render regular supply of quality products and render effective after-scales-service to the consumers all over India."

Telerad has informed the Commission that it has three full fledged branch offices at Bombay, Delhi and Calcutta. Under each of the branch offices it has 16 depots operating as stock points for easy availability of the company's products. In addition, Telerad has more than 1,000 distributors and dealers located in all parts of the country. In this connection it has been stated:

"We envisage to increase the number of our sales points, that is the dealer net work, so as to reach particularly the rural areas to give the benefit of making available the products to the consumer in his home town. We hope, as the actual number could go up to 3,000 to 4,000 sales points in about one year, it will assist us to sustain these sales points considerably, provided we can offer to the consumer in addition to the radios and transistor etc. also the products which we have applied for."

The applicant has further stated:

"..........if these products were to be manufactured by independent units, the cost of production would be much higher resulting in higher consumer selling price........Any increase in the total activity will, therefore, help in economising on the total management resources, overhead expenses and utilising technical expertise to the optimum levels. Similarly in the manufacturing process, essential common equipment such as tooling facilities, workshop facilities, design and development facilities and ancillary services such as management of raw material, inventories and finished stocks already exists and the additional layout on these would be less than proportionate in the long run as compared to an independent set-up to be built in for any new enterprise."

"As stated earlier, very obvious economies are likely to result in effective marketing and servicing of the product because of similar base already in existence all over the country. Just to give a very simple and effective example, we already have certain Depots and Depot staff, Warehousing facilities in a particular town, where we are already sending Radios, Television etc. To add to the range of other products we will not require duplicating a Depot Manager additional offices or an additional warehouse, but at best some office and field staff at Junior levels to supplement the total additional efforts. These will clearly result in economies in due course. One of the effect of such economies will be, the price reduction to the benefit of the consumers."

(ii) Additional Employment

"Implementation of the project will result in additional employment and effectively assist in utilising the specialised human resources, particularly in the field of research and development."

(iii) Foreign Exchange Earnings

"We can broadbase our export efforts and earn valuable foreign exchange."

(iv) Development of Ancilleries

"The implementation of the proposals will result in additional requirements of auxiliary items to be bought out by us from small scale industries. The total components and spare parts purchased by us have been shown in the financial statement. Of these about 87% will be purchased from the ancillary units."

(v) Indian Capital, know-how and Management

"In comparison with most of the existing units who have either foreign equity, foreign know-how, and/or foreign management, our proposal based on Indian management, Indian capital and indigenous know-how would not put an additional drain on the foreign exchange resources."

Public or Private Limited Company?

- 2.29 In reply to a question regarding conversion of Telerad into a public limited company, the applicant has stated that "the company does not consider it necessary to become public due to the following reasons:—
 - (i) "This company can finance the schemes, moreover, it is a wholly owned subsidiary of a parent company which has adequate resources."
 - (ii) "Parent company has sustained the development costs and loss of this company by substantial plough back. The incremental investment required for these new products is small compared to what has gone into the expansion of Radio and TV Lines."
 - (iii) "We would also like to mention that this company through its holding company is already interconnected with other companies of Sarabhai House, this position will not change in any event."

Public Notification

- 2.30 The proposals of the applicant were notified in the leading newspapers on December 22, 1972. In response to the Press Notification, 23 memoranda were received, all from small scale units. Of these, 18 memoranda were in respect of 16 electronic components, one in respect of record players/changers and four regarding all the three proposals of the applicant. Their names and addresses are shown in Appendix I.
- 2.31 On the basis of the information obtained from the Department of Electronics and the Office of the Development Commissioner, Small Scale Industries, the Commission issued a question-naire to all the existing and intending manufacturers of tape recorders and record players/changers, both in the large and small scale sectors. Apart from information regarding their own production programme, they were also asked to offer their comments on the proposals of Telerad. The information received has been incorporated in Chapter III. The names and addresses of the parties who responded to the Commission's questionnaire are given in Appendix II.
- 2.32 None of the existing or intending large scale manufacturers objected to the two proposals of Telerad. However, 24 small scale units, approved for the manufacture of tape recorders and records players/changers have objected to the Telerad proposals. In addition, objections have been raised by the Small Scale Electronic Industries Association, Bombay, the Federation of Associations of small Scale Industries of India, New Delhi, and the Andhra Pradesh Industrial Development Corporation Ltd., Hyderabad. The main arguments put forth by the objectors are as under:—
 - (i) Telerad belongs to a larger industrial house. As such it should not be allowed to enter non-core industries. As reported by the Small Scale Electronic Industries Association: "It is obvious that Telerad is a member of giant complex and capaitalist cartel which deals with anything from Chemicals and Pharmaceuticals to electronic and travel agents. The policy of the Government of India is to prevent monopolistic growth wherever this is possible. In view of this to allow expansion to Telerad into these fileds of electronic will amount to giving them encouragement in further growth in a vast expanding industry like electronics."
 - (ii) Keeping in view the limited demand for the products under reference, excessive capacity has already been licensed/approved by the Government. The grand of additional capacity, particularly in the large scale sector, may lead to a huge surplus capacity and enhance the burden on the existing small scale units as has already happened in the case of radios. The situation may worsen due to the difficulties in finding an export market for these products.
 - (iii) The development of modern industry is synonymous with the development of electronic industry. Apart from consumer electronics, there is much scope for new lines like aviation, medical and industrial electronics. The large scale units, endowed with better organisation, resources and R & D set up should produce these sophisticated electronic products rather than consumer electronics which involve comparatively a lower level of technology.
 - (iv) The large scale units have an efficient and widespread net work of sales organisation. The per unit selling cost of large scale units for record players and tape recorders will

be negligible. They can afford to spend large sums of money to develop the market image for their products. Once this happens it may be difficult for the small scale units to sell their products.

- (v) As in the case of radios and TVs, the manufacture of tape recorders and record players essentially involves assembling of sub-assemblies and parts and components. As such the requirements of capital investment on plant and machinery are relatively smaller—well within the definition of a small scale unit. Hence it is feasible to produce these products, economically in the small scale sector. It has been pleaded by some objectors that assembly of tape recorders should be completely reserved for the small scale sector.
- (vi) A few units pleaded with the Commission that large scale units like Telerad should produce key components like erase heads, record heads tape dock mechanism and micro motors as their manufacture involves sophisticated technology and large investment. The large scale units should supply these sub-assemblies and parts to small scale units which will assemble tape recorders and record players.

Public Hearing

2.33 A public hearing on the applicant Company's cases was held on April 24, 1973, to give an opportunity (i) to the objectors to represent their case and (ii) to the applicant to clarify its position on some points such as scheme of finance, export prospects for tape recorders and record players and ancillary development. None of the objectors participated in the public hearing. The information given by the applicant and the representative of the Department of Electronics during the public hearing has been incorporated at appropriate places in the body of the Report.



CHAPTER III

TAPE RECORDER AND RECORD PLAYER INDUSTRY AND ITS PROSPECTS

- 3.0 Tape recorders and record players/changers belong to entertainment/consumer electronics which forms an important segment of the electronic industry. Besides these two products, consumer electronics include radios, TVs and public address equipment. The Radio industry, by virtue of an early start, fast rate of growth and complete indianisation of inputs and technology, forms the backbone of entertainment electronics industry in India. The production of radio receiver sets has gone up from 8.94 lakh sets in 1964-65 to 21.0 lakh sets in 1968-69 and to about 30 lakhs sets in 1972-73. The exports of radios and components increased from Rs. 10 lakhs in 1964-65 to Rs. 2.22 crores in 1971-72. An important feature of the industry is the contribution of the small scale sector to the total production. In 1971, out of a total production of 30.2 lakh sets, the small scale sector contributed 10.4 lakhs. Similar progress has been achieved in the production of public address equipments. Relatively, the other products of entertainment electronics are of recent origin. Although record players are being produced in the country since 1960, there was only one unit—in the large scale sector—until 1971. The manufacture of TV sets commenced in 1969 and the "assembly" of tape recorders in 1971. The latest addition is record changers whose production commenced only a few months back.
- 3.1 Tape recorders as well as record players/changers can be manufactured by assemblers purchasing sub-assemblies, parts and components from outside units. They can also be produced by units which produce some parts and components themselves and purchase others from ancillary units. The proportion of bought out parts to the total may vary from unit to unit. The Department of Electronics has, therefore, expressed the view that it is feasible to assemble these products both in the large and small scale sectors. According to the applicant:—

"In general all equipment in a consumer electronics field involves manual labour, but contrary to most of the labour or lented job-works, in this field the work envisaged, is of a high caliber, precise and complicated in nature. The job calls upon a group of workers/operators to follow a specific form of chain work to be adopted in particular sequence which needs a thorough liaisoning and synchronizing between operator to operator."

3.2 In both the products under reference, the process of manufacture involves production/procurement of various parts and components having critical tolerance and adhering to rigid specifications and fulfilling specific design requirements. The parts have to be treated chemically for giving them proper finish, required critical properties and special protection from humidity, temperature and voltage fluctuations. The process further involves independent electro-mechanical assembly of components which have to be grouped together to form various sub-assemblies. The sub-assemblies are finally put together on a main frame or chassis which is housed in a cabinet.

Tape Recorders

- 3.3 The production of tape recorders in India had a small beginning in 1962 when a small scale unit AJCO Electronics, Poona—commenced production of spool type tape recorders. This unit has been producing and selling about 100 tape recorders per annum. However, the unit has not been able to make any significant progress for lack of proper marketing facilities. Even now it manufactures tape recorders only against orders. It has been reported that Bharat Electronics Limited—a public sector undertaking—has been producing a few sophisticated spool type of tape recoders (for transcription purposes) to meet the special requirements of All India Radio and Defence Organisations. But BEL does not produce tape recorders on a commercial basis.
- 3.4 During the last two years or so, a number of large and small scale units started assembling tape recorders on the basis of imported kits. It has been reported that among large scale units the leading assemblers are Mulchandani Electrical and Radio Industries Ltd., Murphy India Ltd., and Telefunken India Ltd. They are marketing tape recorders using the brand names of Bush, Murphy and Telefunken respectively. In the small scale sector, there are ten such units most of which are selling their tape recorders under foreign brand names such as National, Crown, Sony and Standard. While no dependable data are available, the Department of Electronics has estimated

the production of assembled sets at 36,000 per annum. The largest assembler is Mulchandani Electrical and Radio Industries Ltd. which produced 6,000 tape recorders last year. These assemblers manufacture only Cassette type of tape recorders which are sold in retail at Rs. 500 to Rs. 900 per piece.

- 3.5 It has been possible to assemble such a large number of tape recorders as the Government permitted the exporters of radio receiver sets and other electronic equipment to import tape recorders in CKD conditions against their exports. According to the Department of Electronics, this was done not so much for developing the tape recorder industry as for boosting up the exports of radios by providing attractive incentives to the exporters. According to the Import Trade Control Policy for 1972-73, registered exporters could import complete parts, sub-assemblies and main assemblies for use in the assembly of tape recorders, record changers and record players to the extent of 30% of the import entitlement. However, the Import Trade Control Policy for 1973-74 has banned the import of complete sub-assemblies and main-assemblies under import entitlement for the assembly of tape recorders and record players/changers. Similarly, the provision for importing pick ups, loudspeakers, motors (for use in tape recorders, record players/changers) and microphones and parts thereof has been eliminated from the list of items allowed to be imported against import entitlements. The restrictions imposed in the current year's import policy are likely to curb the growth of the tape recorder industry which was so far dependent on 100% imports of parts and components. It is possible that a few of the assemblers may now progressively consider manufacturing some of the parts and components themselves or encouraging their production by ancillary units. The Import Trade Control Policy for 1973-74 has raised the value of the actual user's import licence for import of parts and components from Rs. 25 to Rs. 40 per tape recorder.
- 3.6 The tape recorder indusry is being developed in both the large and small scale sectors. Although no units has yet received an industrial licence, the Government of India has issued letter, of intent to 16 parties in the large scale sector with an overall envisaged capacity of 2.90 lakh sets. It is reported that two of the units have surrendered their letters of intent. Their envisaged capacity was 30,000 sets. For the remaining 14 units, the overall envisaged capacity works out to 2.60 lakh sets. Of the 14 units, one belongs to a larger industrial house, one is foreign company, four are having foreign equity capital to the extent of 33% to 49% and 11 units have sought permission to go in for foreign collaboration/import of foreign technology. It is reported that foreign collaboration in the case of two units, namely, Semi Conductors Ltd. and D.D. Lakhanpal has already been approved by the Government. It may also be added that six units are likely to export a part of their production which varies from 20% to 40%. However, the current Government policy is said to be to issue industrial licence to all the units seeking foreign collaboration only on the specific condition that they export a sizeable part of their annual production.
- 3.7 The capacity in ended to be given to individual units varies between 10,000 and 40,000 sets per annum. There is only one unit, namely, Darbara Singh and Sons Ltd. which has a letter of intent for a capacity of 40,000 sets. Surprisingly, in this case the export obligation is the lowest (20%) in spite of the fact that the company intends to go in for what it calls foreign licence agreement. The relevant data are given in Table II.

TABLE II

List of units to whom letters of intent have been issued for the manufacture of tape recorders

Sl.N		Larger Industrial House/ Foreign Co.	Capacity in Nos.	% of Foreign sharehold- ing	Foreign Collaborat- ion/imported Techni- cal know-how	Export Obliga- tion
(1)) (2)	(3)	(4)	(5)	(6)	(7)
1.	J. K. Electronics, Kan- pur	- Larger Industrial House	20,000	Nil	Foreign Collaboration	40%
2.	Semi-conductors Ltd., Bombay.	No.	10,000	33%	Foreign Collaboration (Approved)	331/3%

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Table II—Contd.

(1) (2)	(3)	(4)	(5)	(6)	(7)
3.	Andhra Pradesh Indus- trial Development Cor- poration	No.	10,000	Nil	No Foreign Colla- boration	
4.	Dhurva Woollen Mills (P) Limited, Bombay.	No.	10,000	Nil	Foreign Collaboration	
5.	Haryash P. Gugnani Ishwar Gupta, New Delhi	No.	30,000	Nil	Foreign Collaboration	
6.	Devidayal Cable Indus- tries Limited, Bombay	No.	30,000	Nil	No Foreign Colla- boration	
7.	S. Chokhani of Bombay	No.	30,000	Nil	Foreign Collaboration	
₽.	Darbara Singh and Sons Limited, Delhi	No.	40,000	Nil	Foreign Collaboration	20%
9.	D.D. Lekhanpal, Bombay	No.	10,000	Nil	Foreign Collaboration	40%
10.	Telefunken India Ltd., Faridabad (Haryana) .	No.	10,000	49%	Foreign Collaboration	
11.	Shri Krishna Kumar Bhargava, 10/14, Shomset Street, Bombay	No.	10,000	Nil	Foreign Collaboration	
12.	Philips India	Foreign Company	20,000	60.17%	Foeign Collaboration	40%
13.	Mulchandani Electrical and Radio Industries Limited	No.	20,000	49%	Foreign Collaboration	40%
14.	Shri Johan Prasad	No.	10,000	Nil	No Foreign Collaboration	
15.	Pradeep Kumar Parekh of Bombay		10,000	Nil	Surrendered Letter of Intent	
16.	Shri G.D. Gopal .	No.	20,00 0		Withdrawn	
	Total .		2,90,000			

Note—According to the Department of Electronics no export obligation is imposed unless the party submits its proposal for foreign collaboration. The parties at S. Nos. 4, 5, 7, 10, 11 and 14 have not submitted their foreign collaboration proposal so far.

^{3.8} According to the office of the Development Commissioner, Small Scale Industries 57 small scale units have been approved for manufacturing tyape recorders with an overall capacity of 5.39 lakhs sets. One does not know the basis on which capacities have been approved in favour of various small scale units with a wide range (between 2,000 and 25,000 sets) particularly when the Department of Electronics has indicated that the minimum economic size for this industry would be around 5,000 sets. The names of the 57 small scale units along with their approved capacity are given in Appendix III. Many of the approved small scale units, it appears, have no background of manufacture of electrical equipment. In fact, some of them appar to be mere traders. One party is actually a Woollen Mill.

^{3.9} The Department of Electronics and the Office of Development Commissioner, Small Scale Industries, could not provide information about the present position of the approved small scale units. The Commission, therefore, sent a questionnaire to all the small scale units, 22 units responded to the questionnaire. Of these only one unit is manufacturing tape recorders and nine 55-8 MofLJ&CA/ND/79

are assembling them on the basis of imported kit. However, only three units gave any information regarding the number of sets assembled. In fact most of them have indicated that they had just started assembling tape recorders or that they were in the process of making arrangements for their manufacture. One does not know how many of these small scale units will actually go into production. It has been alleged that many of these small scale units have got themselves approved merely in order to avail themselves of the actual users' licences for import of parts and components which has become even more attractive from 1973-74. It has been further reported that once Government eliminates this AUs import entitlement, many of these units may go out of existence even on official records. Out of 57 units, at pest it may be expected that not more than 10 or 12 units will actually come up.

- 3.10 Thus, the overall effective capacity which is likely to be established in the large and small scale sectors in the next five years or so may be about 3.60 lakh sets. If the envisaged capacity of 50,000 sets in the case of Telerad is included, this figure goes up to 4.10 lakh sets.
- 3.11 All the existing or intending manufacturers, both in the large as well as small scale sectors, except Telerad, are programmed to produce only cassette type of tape recorders. This is so because the trend during the past few years in the international market has been in favour of the cassette type as it is easier to handle and operate. It has been reported that the finer adjustments originally found in the spool type of tape recorders are now increasingly being incorporated in the cassette type. In fact there are indications that in the next few years, the cassette type recorder may become advanced enough for professional use.

Record Players

3.12 The record player industry owes its origin in the country to a foreign company—the Gramophone in the country to a foreign company—the Gramophone Company of India—which began to produce record players in 1960. It continued to have monopoly in the product until 1971. Since then three more units have gone into production, two in the large scale sector and one in the small scale sector. Starting with 1,435 sets in 1960, the production of record players has increased to 48,489 in 1970 and 98,180 in 1972. The production has more than doubled between 1970 and 1972. This may be attributed to the entry of three new units and the substantial increase in the licensed capacity of the Gramophone Company of India. It may also be noted that in 1972, two foreign companies together accounted for 93,000 sets or 95 per cent of the total output. The share of the Gramophone Company of India alone was 60 per cent. The present position of the record player industry is given below:—

TABLE III
Present Status of Record Player Industry

(In Numbers)

Name	of the Company	Annual Licensed	Actual Pro	duction	Export		ge Remarks
			1971	1972	obligation	of foreign share holding	
(A) La	arge Scale Sector:						
1.	Gramophone Company of India	96,000	47,462	62,859	30,000	60.00	
2.	1	30,000	28,011	30,301	• •	60.17	
3. 4.	trical & Radio Com- pany Ltd.	40,000 40,000		20	 10 ,00 0	4 9.00 49 .00	
5.				••			Letter of intent issued for 20,000 sets.
(B) Sm	- nall Scole Sector	2,06,000	75,473	93,180	40,000		
1.	Arun Hosiery Mills	5,000	2,000	5,000	• •	• •	
	TOTAL A+B	2,11,000	77,473	98,180	40,000	•••	

- 3.13 Table III indicates that the present overall licensed capacity of the large scale sector is for 2.06 lakh sets. Of this capacity for 1.66 lakh sets has already been installed by 3 units. On unit—Telefunken India Ltd.—has not yet installed the capacity although it has got an industria licence for 40,000 record players per annum. The fifty unit—Murphy India Limited—has a letter of intent for 20,000 sets per annum.
- 3.14 According to the information furnished by the office of the Development Commissioner, Small Scale Industries, eight small scale units have been approved for the manufacture of record players with a combined capacity of 77,600 sets per annum. The approved capacity varies between 5,000 sets and 15,000 sets. Relevant data are given in Appendix IV.
- 3.15 Neither the Department of Electronics nor the office of the Development Commissioner, Small Scale Industries, could furnish information to indicate the present position of the approved small scale units. The Commission issued a questionnaire to all the approved units. On the basis of the information thus collected, it appears that only one unit, viz., Arun Hosiery Mills, New Delhi has commensed production of record players and has so far produced 7,000 sets. At the Public Hearing, the representative of D.C., SSI, stated that very few units in this sector are likely to go into production. Thus, of the total approved capacity of 77,000 sets per annum, at best a capacity of 20,000 sets per annum is likely to be installed in the small scale sector.
- 3.16 In case all the 5 units establish the capacity licensed/intended to be grantd to them, the likely capacity in the large-scale sector, in the near future, works out to 2.26 lakhs sets. The applicant company has applied for 40,000 record players. Including the applicant's proposed capacity of 40,000 sets and the likely capacity of 20,000 sets in the small scale sector, the total envisaged capacity for record players in the next 5 years or so may be estimated at 2.86 lakh sets per annum.

Record Changers

- 3.17 The Gramophone Company of India, which has been manufacturing record player since 1960, has not so far produced a record changer. It goes to the credit of 2 small scale unit— Echjay Electronics Pvt. Ltd., Bombay—that it has developed a record changer. It went into production in 1972 and has so far produced 150 sets. Its record changer has been tested by a leading electronics company in the private sector which has by and large found it technically up to the mark. The Gramophone Company of India informed the Commission that it is working on the development of a record changer. No such information is available about their units.
- 3.18 According to the office of Development Commissioner, Small Scale Indutries, eight small scale units nave been approved for the manufacture of record changers with a combined capacity of 38,600 sets. Seven units have been approved for a capacity of 5,000 sets each per annum, while for the eighth unit the capacity has been approved at 3,600 sets. Relevant data are given in Apppendix I.
- 3.19 As in the case of record players, efforts were made by the Commission to get requisite information about the present position of small scale units approved for the manufacture of record changers. From the information thus obtained, it appears that only one unit—Echjay Electronics—has actually gone into production. Two more units—Asiatic Conductors, Ghaziabad, and Electro Plastic (India), New Delhi—are likely to go into production in the near future. The former has indicated that its CG licence is being processed by the Government. Perhaps the number of record changer manufacturing units in the small scale sector may not exceed three.

The Question of Demand

3.20 In the case of items like tape recorders and record palyers, one of the very first questions that arises is regarding the demand that may be expected to arise, especially in view of the policy framework regarding income/consumption laid down by Government. We find that no market survey as such has been conducted by the applicant Company nor have we been able to secure any information about any clear estimate on an appropriate basis prepared by any authority regarding this matter. At present tape recorders are not being produced in the country except by assembly of kits imported on the basis of export entitlement licences. Exact figures of such production are not available with any authority. There is also some casual import by persons returning from abroad and it is known that there is also some smuggling. The extent of the actual purchases is not known and therefore there is no indication about the actual demand at present for tape recorders. The situation about the record players is better in the sense that this is an item already under production in the country. The actual production of record players was over 75,000 in 1971 and over 93,000

in 1972 in the large scale sector. There was also some production in the small scale sector. Actual exports have been negligible indicating that the demand in the country has been of the order indicated by the actual production.

- 3.21 The Department of electronics has indicated that no specific programmes of development had been prepared for these products but demand projections for the Fifth Plan were being made. "These envisage roughly about 2 lakhs tape recorders annually to meet the internal demand in addition to 20,000 numbers per year for export purposes. In the case of record players and record changes, the demand by the end of the fifth plan period has been estimated to be (si) around 2 lakhs numbers per year in addition to 50,000 numbers for export." The basis on which these rough estimates have been prepared has not been indicated.
- 3.22 The applicant Compnay has stated that the Planning Commission had estimated the demand for tape recorders as being of the order of 3.5 lakhs sets by 1973. The company had further stated that, looking at the overall growth of the industry, the demand may be expected to go up to 5 lakh sets by 1975. We have not been able to find out the exact source from where this estimate has been quoted. It does appear however that the Planning Commission had sometime back thought of establishing a capacity for 3 lakh numbers per annum. Regarding record players and changers the applicant Company has estimated that the annual demand "may go up to 200,000 sets per year". They have not indicated the basis on which this estimate has been made.

Consumption/Income Policy and Demand

- 3.23 While considering this question we cannot overlook the emphasis placed in the Approach to the Fifth Plan on 'growth with re-distributive justice' and the clear statement that the consumption of the top 30% of the population would have to be brought down by 5 to 6%. Some further details worked out by the Planning Commission suggest that the share of consumption of the top 5% of the population in the total consumption would decline from 15.8% to 11.2% by the last year of the Plan. This would indicate that the demand for items which are mainly consumed by upper income groups is not only unlikely to increase but may actually decline. In this connection, it should also be noted that the use of record players/changers and cassette tape records involves recurring expenditure on discs and cassettes which also may be difficult if the Plan approach of reducing the consumption of upper income groups succeeds. That is why the Planning Commission has also indicated that the per annum increase in the value of output of items like radios and T.V. sets in the Fifth Plan period would only be of the order of 3.5%. The situation cannot be very different for items like tape recorders and record players. The Approach document has clearly indicated in this context that "production pattern must be controlled in such a manner that in essential but expensive articles of consumption are not made available in the present stage of development. Licensing policy and other instruments at the disposal of the Government will have to be employed in a manner consistent with the envisaged pattern of growth."*
- 3.24 It is some times stated that these items need not be thought of merely in terms of private consumption—that there would be considerable demand for these from institutions like schools, colleges and community centres. The Department of Electronics has stated that "tape recorders have a distinct educational and institutional function in a variety of areas and will increasingly form hardware for new programmes in educational technologies." While the potential use of tape recorders for educational purposes and that of record players/changes for use of community centres etc. can certainly not be discounted, the question is one of actual demand in the rear future from such sources. In this context it would be useful to note that though Delhi has had television programmes for over five years now, the number of community sets is not very high. We do not know either there are definite plans by the Central or State Governments for financing large scale purchase of tape recorders and record players by educational institutions and community centres. Without such a clear programme, it appears that the approach taken by the Department of Electronics is inconsistent with the basic policy regarding consumption constraint emphasised in the Fifth Plan Approach document. If that policy is actually implemented, domestic demand may well not come up to the levels assumed by the Department.
- 3.25 It may, however, be said that, as has happened in the past, the Government may not succeed in curbing the consumption of the high income groups and, if domestic production of the items demanded by these groups is not permitted, it would only encourage smuggling, as is already happening to some extent. It may, therefore, be suggested in extenuation of the present policy that encouraging domestic production of items of this kind would take care of such a contingency.

^{* &}quot;Approach to the fifth plan, 1974-79", Page 19.

Export based Industry

- 3.26 One other argument in favour of developing the production of items like tape recorders would be that such developments form an essential part of the overall development of electronics in the country. Such an approach would be justified even more if the production of such items is developed essentially with a view to building up an export industry. Consumer electronics is specially an area where the cost of labour forms an important element. India has a comparative advantage in terms of availability of trained engineers and skilled labour at prices significantly lower than those prevalent in the more developed countries. One could, therefore, have expected a policy of developing consumer electronics, including the two items under reference, with focus on exports. What we find, however, is that the present policy of Government is based on the assumption that the bulk of the output would be for domestic consumption with only a marginal part (20,000 out 2.2 lakhs tape recorders and 50,000 out of 2.5 lakhs record players) for exports.
- 3.27 The view that the electronics industry, and especially that part of it which is related to consumer electronics, is eminently suited for being developed as export oriented is supported by many authorities. In a Seminar dealing with Electronics held in 1970 Dr. I.G. Patel had pointed out that this is an industry which matches the resource endowment of the country in that it requires cheap labour, a large supply of skilled labour and also some highly competent scientific talent. As he pointed out—"if you are not going to export something in which you have an advantage, then what are you going to export?" This view was also supported by a number of other experts including the late Dr. Vikram Sarabhai— "Electronics is the one industry where this country can make a big break-through as Japan did, does not inherent advantage in economic out. At the same time he cautioned—" (while) India has an inherent advantage in economic terms in an industry like electronics and the week to some the up (this would be as) provided. terms in an industry like electronics and the world market is open to us, (this would be so) provided we go through the minimum production level at which we have to do these things. This required that the production of such equipment should be organised according to technologies and economics of production, as is done in the highly industrialised countries." As it is, "in spite of the electronics industry being intensive in skilled personnel and our paying salaries much below those in other foreign countries advanced in electronics, we rarely match the price of imported goods."4 In spite of these indications about the appropriate basis for a policy, we find that the industry is still being developed without a clear focus on exports and the result is that capacities are being licensed which cannot but make the production uneconomic and inefficient in terms of international competition. While there is no reason why small units should not be permitted to come up in the assembling field especially for meeting the domestic demand, to insist on large scale units not having capacities of the order of 50,000 or more so that small units may come up is likely to defeat the purpose of building up an industry with genuine export capability. Mere insistence on export obligation is not enough; what we need is to help development of an industry which in terms of technology and economics is inherently capable of enjoying a strong position in the internally highly competitive market for consumer electronics. Such review as we have been able to make about the policy in this respect, limited though it has been indicates that this approach has not been followed. We think it necessary that Government should reconsider this matter.

Policy about Foreign Collaboration

3.28 With the focus on the domestic market, the attitude regarding foreign collaboration could well be restrictive. Insisting on the development of indigenous technology, even if this means that the technology in use is a little behind that prevalent elsewhere in the world, may be justified if the industry is mainly catering to domestic demand. On the other hand, if the emphasis is on meeting international competition in export markets, one would have to ensure that the very best technology available in the world is obtained and such R & D effort organised as would ensure that in future the country does not fall behind its competitors. What is actually being done is somewhat confusing. The Department of Electronics has explained its general position in the following words:

"The bread policy of the Government regarding foreign collaboration is already well known. This department is of the view that such collaboration should significantly aid and supplement the indigenous know how and not supplant it. In each case, a carefull assessment is made of the status of the know-how available in the country with particular reference to

^{1.} Proceedings of National Conference on Electronics, Bombay, 24-28 March, 1970, Electronics Commission, Government of India, Bombay, P. 135.

^{2.} Ibid P. 6

^{3.} Ibid, PP. 45 and 4

^{4.} Ibid, P. 4

whether this can be productionised immediately. This is done on the basis both of reports and on-the-spote assessment by the technical personnel of the department. Foreign collaboration however, is considered necessary in certain cases where the know-how has yet to develop in the country and where it is likely to assist in the rapid growth of industry."

3.29 In the case of tape recorders it appears (See Table III) that almost all the parties to whom Letters of Intent have been given are thinking of foreign collaboration, with or without foreign equity. There is also an attempt on the part of some to obtain foreign know how by outright purchase on the basis of a one time payment. In such cases the Government is usually insisting upon an export obligation of the order of 40% (There are however two cases where the export obligation is lower; Darbara Singh & Sons with an export obligation of 20%, and Semi Conductors with an export obligation of $33 \frac{1}{3}\%$). In record players/changers, no foreign collaboration has been permitted but all the parties licensed upto now are foreign subsidiaries or have a high proportion of foreign equity. In this case also, the Department has now adopted a policy of imposing an export obligation

It happens to be the case however that three such companies approved earlier have not export obligation (See Table II).

3.30 It thus appears that the Department of Electronics has now decided to insist on export obligation of a sizeable proportion where foreign collaboration is permitted or in cases of producers who have a substantial proportion of foreign equity. At the same time, because it is not envisaging the development of the industry as primarily export-oriented, it is thinking of the size of units in terms more suited to a protected market than to the competitive international market.

Size of Units

- 3.31 Regarding the size of units producing tape recorders and record players/changers the position is somewhat confusing. Assembling units for both items are being permitted to be set up both in what are called the large scale and small scale sectors, the latter implying that the capital investment on plant and machinery in the particular unit will not exceed Rs. 7.5 lakhs. In the case of tape recorders, 16 Letters of Intent have been issued to large scale producers and 57 units have been approved for production in the small scale sector. The capacity approved ranges between 10,000 and 40,000 in the former with 8 units having been permitted a capacity of 10,000 each, while in the small scale sector it varies from 1,500 to 25,000 with 27 units having an approved capacity of 10,000 or more. It will thus be seen that not only the distinction between large and small scale units is blurred with largely similar capacities being permitted in both the sectors, but one also does not quite see what the Department's approach regarding optimum size for the assembly of tape recorders is, Similarly, regarding record players/changers, five large scale units have been licensed capacities varying from 96,000 to 20,000 while in the small scale 16 units have been approved capacities varying between 3,600 to 15,000.
- 3.32 The Department of Electronics has explained its approach to this problem in the following words:

"The question of minimum economic and optimum size of a unit is a complex one. In assembly operations as has been said earlier, economic viability can often be much lower than what is generally believed to be the case. Thus, in the case of TV receivers, economic viabilities are reached even below 5000 sets per annum which, in absolute terms represents an output of the order of Rs. 1 crore. In the case of tape recorders, no specific studies have yet been made but a figure of 5000 tape recorders per annum should not be difficult for a unit to undertake economically. The question of an optimum size is, however, different and will depend very largely on the type of marketing effort that would be necessary to retail the product. In the case of record players and record changers again, a similar consideration may be expected to hold. It must be conceded that more techno-economic studies are required before optimum sizes can be determined in these categories. The Department is, however, undertaking such studies and expects to have some idea in the near future of the sizes to which the existing units may be allowed to grow so as to have an optimum viability."

3.33 Thus, the Department has indicated that it is not clear at this stage about what the optimum size would be. That is probably the reason why sizes have been approved which appear to indicate no clear technical or economic basis. While no clear cut indications regarding this problem are available, it is well known that the units which compete in the international markets for these items usually have assembling plants for capacities usually exceeding 1,00,000. Not only do such large assembling capacities enable mass production methods to be adopted in the assembling operations, but they also make it possible for the production of components to be organised on a

standardised basis in sufficiently large numbers to make the components production more efficient and economical. The development of R & D, market reserach and sales organisation specially in international markets and the development of product designs in a continuously improving manner obviously becomes possible only when production of these items at the final stage is organised on a very large scale Quality control, both regarding the components and sub-assemblies used and regarding the final products, so as to build up and maintain a high reputation in the market, is also more economical when organised on a large scale. This is not to say that small scale assemblers should not be permitted to come into existence but that, if the industry is to be built up so as to ensure large scale exports, large scale units must be permitted to come into existence, organised with large capacities right from the beginning. This does not seem to have been the view accepted by the Government regarding many of the cases decided in the past. The reasons for this are somewhat obscure.

Role of Large and Small Units

3.34 Another related question in this context is regarding the respective role of large and small scale producers in the production of components and also the question of vertical integration. The Department of Electronics has given its view in this matter as follows:

"The question of obtaining economies of scale by manufacture of the products by single company is again a matter of considerable doubt. On the contrary, it is generally felt that large scale units should not attempt to produce all the sub-assemblies and parts which should be framed out to ancillary units in the small and medium scale sector. Government have clearly defined the policy for large units for both in the public and private sector and have issued instructions that item should not be made by such units which could well be undertaken by the small units. In the electronics field, the Department is discouraging production of such items by the large scale assembly plants and is insisting increasingly that this should be done by small and medium units. In the extreme case, where a unit has already set up facilities for this purpose, this is being restricted to captive consumption. In the case of new units even this is being discouraged. The Department, therefore, does not accept the contention of the applicant company that economies of scale are obtained by manufacturing all the components by the same company."

3.35 It is obvious that this approach is eminently suited specially for this industry. Many components can be efficiently and economically produced by 'small scale' units, and still the production could be on a scale large enough to ensure a technical and economic optimum size. The production of the more difficult components may require larger capital investment and a deeper R & D base. It may, however, be useful to encourage the development of such components by specialised producers who are themselves not in the assembling business. In the case of certain older lines of production such as radios such an approach could not be insisted upon as component production by independent producers was not thought to be practicable then. It is good that in these new lines, which are still largely in their initial stages of development, a proper policy for the purpose of specialisation and widespread development of entrepreneurship is being followed.

Foreign and Indian Producers

3.36 We have already indicated earlier that in order to understand the case under reference in its total context, we collected data about various units already in operation in the field of consumer electronics and intending to enter this line. We also visited certain units (Please see appendix V): One clear impression left on us as a result of our studies is that foreign subsidiaries have not attempted to develop consumer electronics in India with a view to developing India as the base for an export industry. In view of the fact that skilled labour is a major input in this industry, this should have been possible. What some of the Europe-based foreign sibsidiaries should have done was to use their up-to-date technology together with the availability of engineering capability and skilled labour in India so as to develop consumer electronics products for the world market. Japan's predominance in this field is based on its purchase of up-to-date technology from the West, developing its own R & D on that basis and use of its comparatively cheaper skilled labour. As the Japanese labour became constlier, Japan has shifted its production base to other countries where cheap skilled labour is available. With their long association with India, some of the foreign associated companies might have been expected to develop the production of consumer electronic items in India on such a basis. They have signally failed to do so. We hope this fact has not gone unnoticed by the Government authorities. It is therefore, necessary that genuinely Indian producers, capable of developing such industries on a sound technological and economical basis, should be encouraged to do so, as only through them can the industry be developed and exports organised. We have felt it necessary to mention all this as the actual data about permissions granted and conditions imposed suggest to us that there is much confusion in these matters.

CHAPTER IV

EXAMINATION OF THE PROPOSALS

Background to the Present Enquiry

- 4.0 Before we go on to examine the particular proposals referred to the Commission it is necessary that the Commission explains the limitations under which it is working in this context. While the Commission has to be guided by the objectives of the MRTP Act and specially by the considerations laid down in Section 28 in making its recommendations, it cannot overlook the actual policy that the Government has been following and the manner in which cases of other existing or intending producers in the field have been decided. The Commission, for obvious reasons, should not make recommendations which would put the case of an undertaking referred to it under a special handicap as compared to other cases not referred to the Commission, except for specific reasons relevant in the context of the MRTP Act. From this point of view, the Commission has reluctantly to ignore the a basic point regarding the desirability or otherwise of production of tape recorders and record palyers/changers for domestic consumption, even though this question is very relevant in the light of Section 28(f)—"to regulate the control of the material resources of the community to subserve the common good". Similarly, even though it might have been thought that the production of such items should be considered as appropriate essentially on an export-oriented basis—this would have been appropriate in terms of Section 28(d)—"to effect technical and technological improvements in trade and expansion of existing markets and the opening up of new markets"—the Commission cannot overlook that the Government policy at present is to develop the industry essentially for meeting the demands for domestic consumption though an increasing emphasis is being laid on export obligations.
- 4.1 Regarding the question about the appropriate sizes of units, the Government policy has been, as indicated earlier, somewhat confusing. In the case of tape recorders, we find that foreign associated concerns or foreign subsidiaries such as Philips and Mulchandani have been given Letters of Intent for 20,000 each and Telefunken and Semi Conductors 10,000 each. J.K. Electronics, belonging to a Large House, has received a Letter of Intent for 20,000 units. One Durbara Singh & Sons Ltd., unknown in the field of electronics up to now, has been granted a Letter of Intent for 40,000 units and other individual applicants have been granted capacities varying from 30,000 to 10,000 units.
- 4.2 Regarding record players/changers the Gramophone Co. of India, a subsidiary of the EMI Group, was granted approval under the MRTP Act to increase its capacity from 36,000 to 96,000 in 1971 and this was done without any reference to the Commission. Three other toreign subsidiaries/associated producers, viz., Philips, Mulchandani and Telefunken have been permitted capacities of 30,000, 40,000 and 40,000 respectively. Murphy have received a Letter of Intent for a capacity of 20,000.
- 4.3 As regards export obligation, while it has been explained to us that the Department's policy is to insist on an export obligation of 40% in cases of foreign collaboration and/or foreign equity this has been varied in individual cases for reasons which are not quite clear. It has also to be noted in this connection that Durbara Singh and Sons, a party which has been granted the largest capacity in the case of tape recorders viz., 40,000 and which is expecting to enter into a foreign collaboration, has only an export obligation of 20%. In record players the effective export obligation on Gramophone Co. is 30% and the export obligation of Telefunken is 25% of the total capacity. There is no export obligation for Philips and Mulchandani—presumably because their licences were granted before this policy was adopted. The Commission has to take not of these various facts in its examination of the present case. It is obvious that the Commission should not permit an impression to be created that cases referred to it suffer as compared to cases not referred to it. It would also like to make sure that the treatment meted out to genuinely Indian Companies should not normally be worse than the treatment meted out to foreign companies or their associates.

Scope for Applicant Company

4.4 The first question about the two applications under consideration would be whether in view of the number of producers who are already in the field, there is scope for Telerad to enter these lines of production. As has already been indicated, for tape recorders, 14 large scale units

with a capacity of 2.60 lakhs sets, and 57 small scale units with a capacity of 5.39 lakh sets, have been permitted/approved. It is difficult at this stage to be certain about which of these various units will actually get into production and which would withdraw from the field. It is not unlikely that very large number of the approved small scale units will ultimately be found to be short-lived in terms of implementation. With so much uncertainty existing about how many of the units will actually come up, there appears to be no reason why the present application should be ruled out on the ground that enough capacity has already been licensed or approved.

- 4.5 Regarding record players/changers, as has also been indicated earlier, a capacity to the extent of 2.06 lakhs has already been licensed in the large scale sector. In addition, a Letter of Intent for 20,000 sets has been given. All the licensees are foreign subsidiaries or foreign associated companies. In addition, small scale units have been approved for a total capacity of 1.16 lakhs for record players and changers. It is not clear how many of these would actually reach the production stage. In this item also there appears to be no reason why the present applicant should be left out on the ground of lack of scope for further capacity.
- 4.6 It also needs to be mentioned that unlike some of the parties to whom letters of intent have been given for tape recorders and whose capability in the electronic industry is unknown, Telerad is already well established in the production of radios and television sets. It has a good R & D set up and one of its interconnected concerns—Sarabhai Electronic Research Centre—is also having excellent R & D facilities. These facts have also to be taken into account when comparing their application with various other parties who have been granted Letters of Intent. It is also to be noted that Telerad is a hundred per cent Indian owned company unlike those who have been licensed or granted Letters of Intent for the production of record players up to now.

Not a New Line

4.7 Telerad has had to apply for approval under the MRTP Act because it is an undertaking inter-connected with a number of other undertakings belonging to the Sarabhai Group and therefore registered under Section 26 of the MRTP Act. The question, therefore, arises whether an undertaking belonging to a Large House should be permitted to enter this industry. In this connection, it should be noted that Telerad is already in the field of consumer electronics and is producing radios and T.V. sets. The present proposal, if approved, would not therefore permit the House of Sarabhais freshly to enter the consumer electronic industry; it will merely extend the scope of their operations to connected lines in the same industry. It is obvious that from the technological, economic, and marketing points of view, developing connected lines of production such as the proposed ones cannot but be advantageous. Their entry into these lines of production would, therefore, satisfy the criteria indicated under Section 28(a) and (b) of the MRTP Act. Whatever the approach one may suggest for the purpose of reducing the existing concentration of economic power in a group of inter-connected undertakings such as the one represented by the House of Sarabhais—and we shall consider this matter further when we examine the Scheme of Finance—one cannot ignore the technoeconomic considerations involved in a concern like Telerad expanding in a related line of production with considerable technical and economical advantage to the consumer and to the national economy.

Objections from Small Scale Sector

4.8 The main objectors to the present proposal have been small scale producers, both existing and those who intend to enter this line of production. Their main objection is that if a Large House like Sarabl ais is permitted to enter these lines of production, with the various advantages including those of marketing that they enjoy, the small producers would be over-whelmed and the possibility of their successfully maintaining or developing their production would be jeopardised. This is a serious objection. However, as we have indicated in our analysis in Chapter III, it is our view that the assembly of consumer electronics products like tape recorders and record players/changers needs normally to be organised on a large scale if the advantages of scale have to be obtained, especially from the point of view of developing an export market. Small scale industry has a valuable role in the development of electronics but this is mainly through the production of many components and sub-assemblies. The capital investment required for the production of many components is not very large and there is considerable scope for technologist-cum-entrepreneurs to undertake such production. We have also noted that the Department of Electronics is encouraging such small scale producers of components through a policy of increasing the reservation of such production for the benefit of the small scale sector. It is obviously important that the mistake that was committed in the early years of the radio industry of permitting large scale radio producers also to produce various components should not be repeated in the development of new lines of production in electronics such as tape recorders. We specifically asked Telerad about their intentions regarding the buying out

of components. They have indicated that they propose to buy from other producers a very large proportion of components required by them for both tape recorders and record players. They have also indicated that, in their present lines of production, they are already buying from outside about 87 per cent of the components and materials required by them and that the proportion in the proposed line would be of the same magnitude. This would also be of technical and economical benefit to the applicant Company as well as to the industry as a whole. We, therefore, do not think that the small scale producers of components have anything to fear—in our view they have much to gain—by the entry in this field of a large producer who already has some record of fair dealings with component producers. As regards the fear expressed by the small scale assemblers, it is to be admitted that their fears are genuine. It cannot however be overlooked that already a large number of other large scale producers have been granted licences/letters of Intent in these lines of production. Some of them are major producers of consumer electronics such as Philips, Mulchandani, Murphy, Telefunken and the Gramophone Company. Keeping out Telerad would therefore handly serve the purpose of preventing competition from giants of which small scale assemblers are afraid. Moreover, we have already indicated earlier that in our view there is much to be said in favour of permitting organisations operating on a large scale to be set up for assembling consumer electronic items.

4.9 If we may emphasise one particular point that is important in this context, it cannot be overlooked that obsclescence in terms of technology as well as product design is very rapid in this industry. It is only large organisations with a good R & D set up which can continuously keep up to date in terms of technology and also sustained improvements in product designs. This will be possible for them if their production and scale are of sufficiently large magnitude. Small scale producers may actually benefit from the existence of a few such large scale producers because they will be able to imitate such designs and other aspects comparatively freely. The large scale production of components that would result from the erders that would be placed for standardised components on a large scale would also enable small scale producers to enjoy cheaper availability of their own requirements—provided of course that component production is kept separate from the large scale assemblers.

How Much Capacity?

- 4.10 The next question to be examined regarding the applications is the capacity that should be permitted. In the case of record players, as indicated earlier, the Gramophone Company has already been permitted a capacity of 96,000 units. There is no reason therefore why Telerad should not be permitted a capacity of 50,000, units.
- 4.11 Regarding tape recorders, the question is a little more complicated. One initial problem is regarding the product mix in the capacity that Telerad has asked for. It has indicated that it would produce about 80 per cent of its output in terms of spool type tape recorders and 20 per cent in terms of cassette tape recorders. On further enquiry at the time of the public hearing, the applicant admitted that since it made the application, there have been technological developments which have somewhat changed the picture. High fidelity reproduction is now becoming increasingly available even through the cassettee type tape recorders, while formerly this was confined to the spool type. The result is that there is a distinct shift all over the world towards the cassette type as compared to the spool type. If production has to be developed with an eye on the export market, it may therefore be necessary to produce more cassettee types and less spool types than they had initially thought of. It is, however, not necessary to specifically lay down the product mix when granting approval. A producer should be permitted flexibility in a matter like this so that he can adjust production to the changing conditions in the market.
- 4.12 It has been suggested in some official circles that approval be given only for a capacity of 10,000 to Telerad. We cannot appreciate this suggestion. It is true that the prospects for small scale producers of tape recorders may be much worse if Telerad is permitted to have a capacity of 50,000 instead of 10,000. Even if a 60 per cent export obligation is imposed on them, it will mean that they will be able to put on the domestic market about 20,000 units and this may adversely affect small scale assemblers of tape recorders. This argument is however not convincing in view of the fact that other producers with capacities of as much as 40,000 and 30,000 have been granted Letters of Intent. As their export obligations do not exceed 40 per cent (20 per cent for one who has been given 40,000 capacity), the impact on the small scale producers due to competition from them is unavoidable. We therefore think it specious to cut down the capacity of Telerad alone on the ground that this will affect small scale producers adversely. It should also be noted that according to the rough calculations worked out by the applicant company; the prices would be 11 to 16 per cent less if they produce 50,000 units instead of 10,000 units. In our view, the actual difference in cost is likely to be larger. This would ensure not only a distinct advantage to the domestic consumer but,

what in our view is far more important, a much greater capability of competing in the international market. By permitting an initial capacity of 50,000 to a unit like the present applicant, we shall be making it more possible for exports to be effected.

Export Possibility

- 4.13 In this context it is also useful to make a note of the point made by the applicant that it has a fairly good record of export. It has also been pointed out that the export obligations of the various inter connected companies have been to the extent of Rs. 8 lakhs while their actual exports have exceeded Rs. 1 crore. Sarabhai International, an interconnected undertaking, is a recognised export house and had considerable experience in the export of various items such as hair oil, soaps, readymade garments, radios, handicrafts and cotton textiles. They have effected exports to practically all parts of the world. It should, therefore, be possible for the applicant company to effect exports successfully if conditions are created under which exports would become economical.
- 4.14 In this connection, we would like to deal a little more elaborately with the question of export obligation. We have already indicated earlier that the Government's policy now appears to be that an export obligation to the extent of 40 per cent of the actual output should be imposed in respect of all producers of these items who obtain foreign collaboration and/or those who have substantial foreign equity. While ensuring such large exports if undoubtedly a desirable objective, we wonder whether merely imposing such an obligation serves any genuine economic purpose. Cases are not unknown when, to satisfy the obligations imposed, exports have been effected at uneconomic prices and the loss made up by charging unduly high prices in the protected domestic market. Cases have even been mentioned where there is a net foreign exchange loss to the country through such transactions. Whatever that may be, we would like to emphasise that laying down high export obligations is not enough and would not genuinely serve the national objective of self-reliance. What is necessary is to ensure the establishment of enterprises which, because of their technology and scale of production, would be in a position to compete in the world market in terms of the quality as well as the prices of their products. We have already indicated earlier why we think that creation of comparatively small capacities at the assembling stage is unlikely to create viable and efficient units which would be in a position to effectively face the very acute competition in the world market for consumer electronic items. If we desire to develop an industry which would be capable of exporting on a long term basis, it is necessary that economically and technologically competitive units are enabled to establish production facilities on an appropriate scale. From this point of view we think it necessary that Telerad should be permitted to establish a capacity for 50,000 tape recorders and 50,000 record players/changers as asked for by the company.

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Expert Obligations

4.15 It has been suggested that, because Telerad belongs to the Larger House of Sarabhai, in accordance with the general policy of Government regarding items outside the core industry, it should be asked to fulfil an export obligation of 60 per cent if it wants to establish capacity for producing tape recorders and record players. We find it difficult to appreciate a policy under which an Indian Large House is treated worse than foreign subsidiaries and foreign associated companies. As we have pointed out, Gramophone Co. of India were permitted under the M.R.T.P. Act to increase their capacity from 36,000 to 96,000 units of record players/changers and an export obligation only of 50 per cent in respect of the additional production of 60,000 was imposed on them. In effect therefore, the Gramophone Company has an export obligation of only about 30 per cent of their output. In the case Telefunken, the export obligation laid down is only 25 per cent even though there is foreign equity to the extent of 49 per cent in that company. Philips and Mulchandani, having been licensed before this policy was thought of, have no export obligation whatsover. larly in the case of tape recorders, as already pointed out, one Indian unit which has been sanctioned a capacity of 40,000 has been asked to undertake an export obligation of only 20 per cent. Foreign subsidiaries and associated companies have been asked to undertake an export obligation of not more than 40 per cent—in one case only 33\frac{1}{3} per cent. J.K. Electronics, a Larger House undertaking, has been asked to face an export obligation only of 40 per cent. In view of all this, we do not see any reason why an export obligation should be imposed on Telerad exceeding 25 per cent in the case of record players and exceeding 40 per cent in the case of tape recorders. This is not to say that the company should not try to export more than this. As a matter of fact, as the above discussion would indicate, it is our hope that by sanctioning a capacity of 50,000, it should be possible to create conditions under which large scale exports would be facilitated. Such exports would bring genuine economic benefit to the country. For this purpose the applicant company mentioned at the public hearing that it may be necessary to make a once for all purchase of foreign technology in respect of tape recorders. In our view this should be supported as a necessary price to be paid for building up an efficient unit capable of exports.

CHAPTER V

SCHEME OF FINANCE

5.0 The applicant has submitted to the Commission a revised *Scheme of Finance based on the resources from the existing lines (radio and television sets) and from the proposed lines of manufacture (tape recorders and record players/changers). The total outlay on the proposed project, as submitted by the applicant, is as follows:

(Rs./lakhs)

		•		•			•		Nil	Nil
	•			•	•		•		Nil	Nil
ıt									፥፤ ቀስን	40.00
s.						•	•		29.00	10.00
.1				•	•		•	•	•	199.00
					253				Total	239.00
	ut .		<i>t</i>		ut					

Sources and Uses of Funds

5.1 The company has furnished a "Source Application Fund Statement" for the existing licensing lines as also for the proposed lines. The required funds are proposed to be generated from the following sources:

(Rs. lakhs)

	(1))						Existing Lines (2)	Proposed Lines (3)	Total (4)
Pre-tax profits	-	•		•	सहय	मव ज	격류	229.00	83.00	312.00
Depreciation		•			•	•	•	24.00	9.00	33.00
Dev. Rebate			•			•		1.00	1.00	2.00
Total Internal	Gen	eratio	n		•		•	254.00	93.00	347.00

^{*}The reasons given by the applicant for revising the Scheme as submitted in its original application are as follows:

Secondly, during this period, new Ancillary Industries have sprung up from where we can draw our requirements of several components and, to that extent, reduce the capital expenditure. The statement submitted to you was based on the incremental capital cost.

The capital expenditure of Rs. 40 lacs included in addition to the capital expenditure of Rs. 29 lacs, for the new projects of tape records and record players/changes Rs. 11 lacs as expenditure towards our existing lines of production (Radio and Television Receivers)."

[&]quot;When the IDR Licence application for Tape Recorders as well as Record Players/Changers were made, the capital requirements were worked out on the basis of independent projects. It was envisaged that separate divisions for manufacture of tape recorders and record players/changers in separate premises will be established. Since then, Telerad has already acquired 8½ acres of adjacent land as well as increased the total built up area by about 50,000 sq. ft. Accordingly, the reassessment of the capital expenditure for these new projects i. e. Tape Recorders and Record Players/Changers was made and it is found out that considerable unutilised capacity in our Machine Shop, Cabinet Making Shop etc., could be deployed in the manufacture of these items, if necessarry, even by working additional shift.

(1)					(2)	(3)	(4)
Current Loans							
Against Hypothecation	of Stocks	and E	Bills D	iscounting			93.00
						TOTAL	440.00
Use of Funds							
1) Capital Expenditure							
Machinery and Equi	pment						
Existing Lines			•	•		11.00	40.00
Proposed Lines		•	•	•		29.00	
(2) Working Capital				•			199.00
(3) Taxes				•			130.00
(4) Payment of term lo	an .			•			11.00
(5) Payment of loan to		comp	any	•			45.00
(6) Payment of loan to		•					15.00
•			for		à	TOTAL	440.00
Net Surplus/D	eficit at	the en	d of l	977-78		•	Nil

Analysis of Internal Generation of Funds:

(a) Availability of Resources from the existing Lines of Production

5.2 A sum of Rs. 229 has been indicated as pre-tax profits from the existing lines during the years 1973-74 to 1977-78. While computing profits, the applicant has shown higher production in future years as compared to actual production during the last four years. These figures are given below:

											Number	of Sets
	,								, 		Radios	T.Vs.
Actual Production	n :						:					
1-1-1969	to 31	-12-19	969			•		•	•		19,985	
1-1-1970	to 31	-3-197	71 .				•			•	25,149	2,329
1-4-1971	to 31	-3-197	72 .			•				•	36,572	4,315
1-4-1972	to 31	-3-197	73		•	•		•	•	•	67,092	10,029
Proposed Product Year	ion											
1973-74	•	•			•	•	•	•	•	•	80,000	18,000
1974-75		•			•				•		1,00,000	20,000
1975-76			•	•		•	•	•	•	•	1,50,000	22,000
1976-77	•		•	•		•	•	•		•	2,00,000	25,000
1977-78							•				2,20,000	25,000

^{5.3} Telerad seems to have made substantial progress by increasing the production of radio receiver sets during the past 3 years. In fact, between 1970-71 and 1972-73 Telerad's production of

radics has gone up by about 170 per cent which means an annual rate of growth of about 85 per cent. This high rate of growth is remarkable in the light of the virtual stagnant demand for radio receiver sets in the country during the past 2 or 3 years which had hit the existing units, both in the large and the small scale sectors. It has been reported that some of the other units had even cut back their production. This remarkable increase has however to be seen against the background of a very low output in 1969-70.

5.4 The applicant company has projected an increase in production from 80,000 sets in 1973-74 to 2,20,000 sets in 1977-78, which implies (i) that it will produce 10% over and above its licensed/installed capacity and (ii) the average annual rate of growth in output will be about 45%. Various reasons are mentioned for the fall in the rate of increase in demand for radio receiver sets, including widespread drought conditions during the past two years and reaching a near saturation point regarding the demand for the radios. However, in the next five years, which include four years of the Fifth Five Year Plan, it is not unlikely that the damand for radio receiver sets may receive to some extent. The Planning Commission has projected the output for radio receiver sets in the terminal year of the Fifth Five Year Plan (1978-79) at 385 lakh sets and an annual rate of growth of 3.46% in production of radio and T.V. sets in the Fifth Plan period.*

At the same time, it may also be noted that Telerad is one of the 18 units registered with the D.G.T.D. for the manufacture of radio receiver sets. In addition, there are a very large number of such units in the small scale sector. Obviously, there will be much competition to share the market. In the light of this, it does not appear likely that Telerad will be able to increase its production at the projected rate of 45 per cent. Thus, the projected output of 2.20 lakhs set for the year 1977-78 seems to be too optimistic.

5.5 Telerad has made substantial progress in the production of T.V. sets during the past three years. Its production of T.V. sets has gone up from 2,329 in 1970-71 to 10,029 sets in 1972-73 which is a little higher than its licensed capacity of 10,000 sets. Being one of the three units which have been recently approved by the Central Government for a capacity of 20,000 each, having the advantage of an early start, and a net-work of distribution centres and availability of R. & D. facilities, both within the unit and at SERC, Ahmedabad, it is likely that by the year 1977-78, Telerad will be able to reach the projected production of 25,000 sets which would be 25 per cent above the approved capacity of 20,000 sets.

(b) Projected Profitability

5.6 While preparing the resources statement, the company has assumed very high profitability, as is discernible from the figures given below:

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(Rs. lakhs)

	Yea	i r							Sales	Gross Profit (Before payment of Interest)	Percentage of Gross pro- fit to Sales
		(1)							(2)	(3)	(4)
Radios											
1973-74		•		•		. •		•.	125.00	10.00	8.00
1974-75			•	•	•	•	•		150.00	14.00	9.33
1975-76	•	•			•	•			 220.00	27.00	12.27
1976-77			•		•		•		270.00	36.00	13.33
1977-78	•	•	•		• ,		•		296.00	39.00	13.18
									1061.00	126.00	11.88

^{*}Approach to the Fifth Plan 1974-79, pp. 20 and 24.

	(:)								(2)	(3)	(4)
Television												
1973-74										288.00	28.00	9.72
1974-75										300.00	38.00	12.67
1975-76										330.00	46.00	13.94
1976-77			•							335.00	43.00	12.83
1977-78		•	•		•		•			325.00	41.00	12.62
								Tor	ra l	1,578.00	196.00	12.42
Total for	Rad	ios, an	d T.V	∕s.	•,	•				2,639.00	322.00	12.20
Less Inter	rest					•.					93.00	
Pre-tax P	rofit							•			229.00	

5.7 The sales turnover is about 2½ times the total average capital employed during the projected period. On this basis, the profitability (gross profit before payment of interest) on capital employed works out to more than 30%. This the applicant may not be able to achieve in view of the highly competitive conditions in the radio receiver sets industry. It appears that the company will not be able to earn pre-tax profits amounting to Rs. 229 lakhs from the existing lines because (i) it has assumed unduly optimistic figures of production in the case of radios and (ii) it has also assumed unduly high percentage of profits on sales and on capital employed.

Resources to be Generated from the phased Programme of Manufacture of Tape Recorders and Record Players/Changers

5.8 Rs. 93 lakhs on account of pro-tax profits have been projected from the proposed lines of manufacture. The envisaged production during the projected years taken into account by the company is as under:—

(In numbers)

Year				Tape Recorders	Record Players/Changers
1973-74		•		NIL	থব
1974-75			•	25,000	• •
1975-76				40,000	10,000
1976-77				50,000	25,000
1977-78				50,000	50,000

5.9 While projecting the pre-tax profits from the proposed lines, the profitability assumed is as shown below:—

(Rs. lakhs)

Year				Sales	Gross Profits (Before payment of interest)	Percentage of Gross Profit to Sales
	(1)			(2)	(3)	(4)
Tape Recorder	s					
1973-74				••	••	••
1974-75	•	,	•	136.00	11.00	8.09
1975-76				200.00	26.00	13.00
1976-77			•	240.00	36.00	15.00
1977-78		•	•	240.00	37.00	15.42
	•	ГОТА	L.	816.00	110.00	13.48

(1)	(2)	(3)	(4)		
Record Players/Changers:					
1973-74	• •	••	••		
1974-75	• •	• •			
1975-76	20.00	1.00	5.00		
1976-77	48.00	7.00	14.58		
1977-78	90.00	13.00	14.44		
TOTAL	158.00	21.00	13.29		
Cotal for Tape Recorders and Record Players/Changers .	974.00	131.00	13.44		
Less Interest		48.00			
Pre-tax Profit		83.00			

^{5.10} The average profitability assumed by the company on sales at 13.44% seems to be very high. The total sales projected by the applicant are 2½ times the total average capital employed. As such, gross profit (before payment of interest) on total average capital employed for the proposed lines works out to about 35 per cent. This is obviously unduly high and unlikely to be realised, especially if large scale exports are to be undertaken out of the proposed output.

Modifications in the Scheme

- 5.11 From the above analysis, it would be clear that the applicant company's estimate about internal generation of funds is over optimistic. It may be pointed out further that the company has incurred losses of Rs. 86.68 lakhs upto 31st March, 1972 and these may increase further in 1972-73. The company has proposed repayment of loans to the holding company (SMCPL) and other creditors and these will amount to Rs. 60 lakhs. In any case, it appears to us almost inevitable that internal accrual will not be adequate to meet the requirements of the expansion proposed by the applicant company and recourse will have to be had to outside sources of finance.
- 5.12 It is possible that the company may attempt to do without outside finance by allowing down its expansion scheme and spreading it over a longer period. This may enable the company to rely largely or even entirely on internal generation of funds for financing the expansion. This, however, would be undesirable. We are recommending the expansion scheme for approval on the ground that the creation of a large capacity at one go is likely to help organisation of production on technologically and economically efficient lines; and this would be of significant benefit especially from the point of view of developing exports. A slowing down of the proposed expansion and its implementation in stages would amount to defeating this approach and at the same time preempting a large capacity. It is, therefore, appropriate that resort to such a course by the company should be discouraged. For this purpose we are recommending that a condition should be imposed, when approving the Scheme of Finance, that the expansion should be carried out in a period not exceeding five years and that the permitted capacity should be restricted to whatever level of output is reached at the end of this period.
- 5.13 This may only leave the alternative of securing outside finance for meeting the cost of expansion. The outside finance may take the form either of issue of fresh equity or that of obtaining loans. We would have preferred issue of new equity for this purpose in view of the fact that the equity; debt ratio of the company would otherwise be unduly low and it is necessary to increase the equity so as to have a more balanced ratio. This would also have been useful for the purpose of diluting the equity control exercised by one family on this company. As the company is already playing an important role in the electronics industry and under the proposals we are recommending will assume even a more important role, it is necessary that the company should be converted from a private company whose equity is entirely controlled in the last resort by

one family, into a public company with the general public and also public financial institutions participating in equity holdings. However, such a course is not practicable at the moment in view of the large accumulated less of the company. The actual issue of new equity will therefore have to be post-poned.

5.14 The company, may therefore, have to resort to long term loans in one form or the other. It is of course possible that an attempt will be made to obtain short term bank loans to meet the requirements of the scheme of expansion. We expect that the concerned banks will discourage such an attempt, if it is made, so that a proper financial policy is pursued by the applicant. In order to ensure that the private and family nature of the company's control is changed, it is necessary to insist that, to the extent long term loans are required, the company should first attempt to obtain them from public financial institutions. The institutions will impose convertibility conditions in accordance with the general policy of the Government. This will ensure that control over the company is somewhat diluted. If the company finds that the public financial institutions are not willing to provide the necessary long term finance, it should of course be free to resort to any other source of finance that it can locate.



CHAITER VI

CONCLUSIONS AND RECOMMENDATIONS

- 6.0 As we have indicated in the earlier Chapters of this Report, we found it necessary to undertake a review of the development of the consumer electronics industry. We gave particular attention to the policy adopted by Government regarding different producers in this industry, specially regarding those who are already engaged in or who intend to enter the manufacture of Tape Recorders and Record Players. This review indicated to us that there appears to be some lack of clarity and consistency in the policy pursued by Government in this area up to now. There is much confusion regarding whether this industry should be developed on such a technological and economical basis as would make it capable of competing in the world market or not. The role to be played by large and small scale units also remains very unclear; the present policy appear to discourage the organisation of units on a large enough scale to ensure optimisation in terms of technical efficiency and costs of production. It is also observed that a number of foreign associated companies or subsidiaries have been permitted to create capacities on conditions which are more favourable than these considered appropriate for genuinely Indian Companies, when these belong to Larger Houses. We had specially to take note of the decision taken by the Government under the Monopolies and Restrictive Trade Practices Act regarding the Gramophone Company of India. Lastly, the importance of encouraging the further development of a company which is already well established in certain lines of consumer electronics so as to obtain the maximum advantage of economies of scale in terms of R & D human skills and marketing appears to be sometimes ignored. While in terms of the M.R.T.P. Act we would obviously wish to reduce concentration of economic power, specially when such power is in the hands of a single family, at the same time, we cannot ignore the importance of encouraging genuinely Indian enterprise and helping the growth of production units which would be able to play a vital role in the domestic as well as international markets. The guidelines (Section 28(a), (b), (c) and (d)) are very clear in this respect.
 - 6.1 Taking all these aspects into consideration, the Commission recommends as follows:
 - (i) Telerad may be permitted to undertake the expansion as proposed and set up a capacity for producing 50,000 sets of Tape Recorders and 50,000 sets of Record Players/Changers.
 - (ii) This expansion should be completed within a period of five years from the time approvals under the M.R.T.P. Act, the IDRA and the capital Goods Control are received.
 - (iii) In order to avoid delay in completing the expansion scheme and possible pre-emption, it should be laid down that the 'capacity approved' would be brought down to the actual capacity in operation at the end of the five-year period stipulated under (ii) above.
 - (iv) The applicant should undertake to export 20% of its output of Record Players/Changers and 40% of its output of Tape Recorders.
 - (v) In case the applicant requires to obtain outside finance during the period of expansion, it should first approach term financing institutions in the public sector and accept loans with a convertibility clause if the institutions wish to impose it. Only if the term financing institutions are not in a position to provide the loans required, would the Company be free to resort to other sources, including its parent company or other interconnected companies.

(Sd./—)

D. SUBRAMANIAN

Member

(Sd./--)

H.K. PARANJAPE

Member

New Delhi May 7, 1973.

APPENDIX I

Names and Addresses of Parties who submitted Memoranda in Response to Press Notification

सन्धमेव जयत

Name and Address

- A. Electronic Components
 - Indian Micro Motors, Geeta Society, 10, Synagogue Street, Poona.
- 2. Precision Electronic Component Manufacturing Co., Istakan Mansion Compound, Musheerabad Road, Hyderabad.
- 3. Jagran Enterprises, Sarvodya Nagar, Kanpur-5.
- Mahabir Export & Import Company (Private) Limited, N-96, Greater Kailash-1, New Delhi.
- 5. S.C. Pande and Rakesh Pant, 44-A, Mandir Marg, New Delhi.
- Modern Garmets Private Limited, B-18, New Delhi South Extension Part II, New Delhi.
- 7. R.V. Mehta and Sons, 14, Bentinck Street, Calcutta.
- 8. Electronic Industries of India, 24, G.R. Road, Mohan Nagar, Ghaziabad.
- 9. Jai Electronics, Bagbahra, Distt. Raipur, (Madhya Pradesh).
- Time Electronics,
 C-1, Industrial Estate,
 Sanathnagar,
 Hyderabad.
- 11. Golden Industries, 10, Jessore Road, Calcutta.
- 12. Khanna Electronics, 120/332, Lajpat Nagar, Kanpur.
- 13. Rana Electron Laboratories, 458, Khair Nagar (Banbattan) Meerut-2.
- 14. Kashi Gramophone Stores, Bulansai, Varanasi.
- Scientific Instrument Co. Ltd.,
 Fej Bahadur Sapru Road,
 Allahabad.

- 16. Electronics Corporation of India, Industrial Development Area, Cheeapalli, Hyderabad-40.
- 17. A.M. Parekh.
 32, Nicol Road,
 Ballard Estate,
 Bombay-1.
- 18. Narinder C. Mehta, Jail Road, Surinder Nagar, (Gujarat).
- B. Electronic Components, Tape Recorders and Record Players and Changers
- Radio and Electrical Manufacturing Company Limited, Post Bag No. 2606, Mysore Road, Bangalore.
- Hari Singh,
 C/o. Shri Sarvjit Singh,
 C-11/50, Moti Bagh,
 New Delhi.
- Small Scale Electronic Industries Association, 1203, Prasad Chambers, Tata Road, Bombay.
- C. Tape Recorders and Record Changers and Players.
- Rajeev Kumar,
 Chairman,
 Hindustan Veneer and Plywood Co.,
 69, Deshbandu Gupta Road,
 New Delhi-55.
- D. Record Players/Changers
- 23. Echjay Electronics Private Limited, Kanjur Village Road, Bhandup, Bombay-28.

APPENDIX II

सत्यम्ब जयत

Names and Addresses of Parties who responded to the Commission's Questionnaire.

- Devidayal Electronics and Wires Limited, Gupta Mills Estate, Oarukhana, Resy Road, Bombay.
- 2. Shri P.D. Parekh, 35, Ocean Crest, Bhulabhai Desai Road, Bombay -26.
- 3. Telefunken India Limited, G-4, N.D. South Extension-I, New Delhi-49.
- 4. Dhruva Woollen Mills Pvt. Ltd., New Sun Mill Compound, Sun Mill Road, Lower Parel, Post Box No. 6304, Bombay-13.

सन्धमन जयन

- Darbara Singh and Sons,
 "Olympus House",
 29, Netaji Subhash Marg,
 Delhi-6.
- 6. J.K. Electronics, 84/55, G.T. Road, Kanpur.
- Andhra Pradesh Industrial Development Corporation Limited, Shakar Bhavan, Ground Floor, B-1-174, Fatch Maiden Road, Post Box No. 13, Hyderabad.
- 8. Philips India Limited, Shivsagar Estate Block 'A', Dr. Annie Besant Road, Bombay-18.
- Mulchandani Electrical and Radio Industries Ltd., Sukh Sagar, Nyayamoorti, Sitaram Petkar Marg, Bombay.
- 10. Murphy India Limited, Eastern Express Highway, P.O. Box No. 104, Head Post Office, Thana-1, Maharashtra, India.
- Shri D.D. Lakhanpal,
 New Queen's Road,
 Bombay-4.
- 12. M.K. Electronics and Electricals, 56, Tukoganj Path, Dewas (M.P.)
- 13. Echjay Electronics Pvt. Ltd., Kunjur Village Road, Bhandup, Bombay-78.
- 14. Ahuja Radios, 215, Okhla Industrial Estate, New Delhi-20.
- 15. National Electric, P.O. Box No. 94, Station Road, Margao—Goa.
- Shri Avadesh Mandelia, Century Bhawan, Dr. Annie Besant Road, Worli, Bombay-25.
- 17. Eta Radio Industries, Eta Sadan, Patnamel Street, (Opp. Dhariwal Shop), Pahari Dhiraj, Sadar Bazar, Delhi-6.
- 18. Ajco Electronics, 47/21, Verandawana, Poona-4.

- Hivelm Industries Limited, 135, Lattico Bridge Road, Madras.
- Western Electronics Pvt. Ltd., 244, Okhla Industrial Estate, New Delhi-20.
- 21. Televista Electronics Pvt. Ltd., 239, Okhla Industrial Estate, New Delhi-20.
- 22. Calcutta Gramophone Agency, 'Panna Bhawan', I, Ansari Road, Delhi-6.
- 23. Lall Radios, 12, Nail Road, Indore-3 (M.P.).
- 24. Eskay Industries, B-23, Industrial Estate, Sanatnagar, Hyderabad-18.
- 25. Singh Radio Company (India) Pvt. Ltd., 21, Daryaganj, Delhi-6.
- Parushi Electronics,
 Gandhi Road, Opp. Mahavir Jain Temple,
 Ahmedabad.
- 27. Radiocorder Industries, 13/14, Industrial Area, Sonepat (Haryana).
- 28. Priti Electronics Pvt. Ltd., F-21, Jangpura Extension, New Delhi-14.
- 29. Mahendra Radio and Televison Corporation, 89/3, Thapar Nagar, Mearut-2.
- 30. Shri P. Obul Reddy, 31, General Patters Road, Madras-2.
- 31. Asian Electronics, 7/133, Ansari Road, Daryaganj, Delhi- 6.
- 32. Eskay Electronics (India) Pvt. Ltd., 28/18, East Patel Nagar, New Delhi-8.
- 33. Electro Mechanical Components Co., 31, General Patters Road, Madras-2.
- 34. Electronics Products,
 Bombay Mutual Annexe,
 Gunbow Street,
 Bombay-1.
- 35. Gramophone Co. of India Limited, 5, Old Court House Street, Calcutta.
- Electro Plastics (India) Limited,
 D-68, Lajpat Nagar,
 New Delhi.

- 37. The Gibba Radiophone Company, 2698, Original Read, Karol Bagh, New Delhi.
- 38. Asiatic Conductors, 519A, Turab Nagar, Ghaziabad, (U.P.)
- 39. Federation of Associations of Small Industries of India, 23-B/2, Rohtak Road, New Delhi-5.
- 40. Small Scale Electronics Industries Association, 1203, Prashad Chambers, Tata Road, Bombay.
- 41. The Uttar Pradesh Small Industries Corporation Ltd., B-15, Sarvodaya Nagar, Kanpur-(U.P.)

APPENDIK III

List of Approved Small Scale Units for Manufacture of Tape Recorders

	• • • • • • • • • • • • • • • • • • • •			•	•				(In Numbers)
S.No.	Name and address of the Un	its	15		7			Capa	city Approved per Annum
(1)	(2)	SE SE			1				(3)
1.	M/s. Ahuja Radios, 3-Okhla Industrial Estate, Mathura Road, New Delhi	1			9	•	•	•	15,000
2.	M/s. Spaceonix, Jindal House, 9-B, Asaf Ali Road, New Delhi			0 [7] a siya)	•		•.	10,000
3.	M/s. Supreme Electronics, 1666, Kucha Dakhani Raj, Darya Ganj, Delhi-6.		11-1			•	•	•	10,000
4.	M/s. Miniature Electronics, l, Lajpath Rai Marg, New Delhi.	•	. •	. •	•		•	•	10,000
5.	M/s. Eskay Electronics, 28/18, East Patel Nagar, New Delhi.		٠.	•		•	•	•	12,000
6.	M/s. Radio and Communication IV/A-29, Laj path Nagar, New Delhi.	n Tr	aders		•	•		•	5,000
7.	M/s. Aarpee Electronics, C/o. Ravi Praksh Jain, 22, Sunder Nagar, New Delhi	••	•	•					20,000
8.	M/s. Telestar (Television), Industries (P) Limited, Phase III, 39, Okhla Industrial New Delhi.	Estate				-			20,000
9.	Ramesh K. Agarwal, 7-A/51, W.E.A., Karol Bagh, New Delhi		•	•	.•	•			15,000

APPENDIX III—Contd.

(1)	(2)								(3)
10.	Mr. I.P. Gupta, 53/37, Ramjas Road, Karol Bagh, New Delhi.			•			•		15,000
11.	Mr. R.C. Chokhani, 1514, Behind Bhagirath Place, Chandni Chowk, Delhi-6.	•		•	•			•	12,000
12.	M/s. Jain Radio Works, 24, Darya Ganj, Delhi.	•	•			•	• •	•	20,000
3.	M/s. Calcutta Gramophone Ager 1423, Chandni Chowk, Delhi.	ıcy,	•	•	•	•	•		20,000
14.	M/s. Ajit Gupta, C/o. Mr. I.K. Gupta, General Manager, Telephones, Khurshed Lal Bhavan, Janpath, New Delhi	•			•		•	•	10,000
15.	Shri Vijay Kumar Gupta Vishra 46-S-Friends Colony, New Delhi-14.	nti,			3	•	•		10,000
16.	M/s. Eta Radio Industries, 4491, Patnimal Street, Opp. Jain Nurshing Home, P.O. Sadar Bazar, Delhi-6.	A STATE OF THE PARTY OF THE PAR					•	•	5,000
17.	M/s. Priti Electronics (P) Ltd., E-21, Jangpura Extension, New Delhi-14			NG.	>	•		•	5,000
18.	M/s. Asian Electronics, T/33, Ansari Road, Daryanganj, Delhi-6.		स्यमेव	जयते		•	•	•	5,000
19.	M/s. Electro Plastic, D-68, Lajpat Nagar, New Delhi.	. •	•	•		. •			5,000
20.	M/s. General Radio Corporation 2/2, Jhandewalan Industrial Schew Delhi-33	ı, hemo	: ,	•	•	•	,	•	5,000
21.	M/s. Sumica Corporation, C-217, Greater Kailash, New Delhi-28	•	•	•	•	•		•	5,000
22.	M/s. Dipsons, 175, ND Storey, Lajpat Nagar, New Delhi-24.	•	•	•	•	•		•	5,000
23.	M/s. General Electronics, 14/15, F. Connught Place, New Delhi.	•			•	•		•	6,000
24.	M/s. Pioneer Electronics, Corporation, 53, Vijay Nagar, Agra.				•		•		20,000

APPENDIX III-contd.

(1)	(2)			(3)
5.	M/s. Radio Corner Industries, E-19, Industrial Area, Sonepat.	· •		10,000
6.	M/s. Veston Electronics, 20, National Park, New Delhi.		·	10,000
7.	M/s. Singh Radio Co. (India) Ltd., 21, Daryanganj, Delhi-6.		· · •	6,000
8.	M/s. Road Corner, 29, Maharani Road, Indore.	•	•	1,800
9.	M/s. M.K. Electronics and Electricals, 56, Tukoganj Path, Dewas (M.P.)			1,500
30.	M/s. Lall Radios, 12, Jail Road, Indore (M.P.)		•	3,000
31.	M/s. National Electronic, Margao, Goa.			1,800
32.	M/s. Bhatty Electronics Corporation, 99, C & D & Govt. Indl., Estate, Kandivilli West, Bombay-67.	•	•	12,000
33.	M/s. Maharashtra Radio and Electric Limited, Block A-4, Functional Electronic Industrial Estate, Poona-18.		•	4,200
34.	M/s. New India Precision Instruments, 2nd Floor, 7/8, Batawala Building, Horniman Circle, Bombay-1.	• •	•	12,000
35.	M/s. Cinerad Private Limited, Sukh Sagar, Sandhurst Bridge, Hughes Road, Bombay.	•	٠	20,000
36.	M/s. Avadhesh Mandelia, Clentury Bhavan, Dr. Annie Besant Road, Bombay-25 (DD)	• •	•	5,000
37.	M/s. Kartari Electronics, 40/41, Veallard View Tardeo Main Road, Bombay-34. (WB.)		•	5,000
38.	M/s. Electronic Products, Mutual Annexe, Gunbow St. For B., Bombay-1.	• •	•	3,600
39.	M/s. Conjap Electronics, Industries, 64, Dr. Algappa, Chettiar Road, Vepery, Madras-27.	• , •		25,000

APPENDIX III-contd.

(1)	(2)					(3)
ю.	M/s. Hivelm Industries (P) Ltd. A. 5/6, Industrial Estate, Guindy, Madras-32.	,			· ·	20,000
1.	M/s. Resa and Company, 10, Ist Main Road, Wallace Garden, Nungambakam High Road, Madras-6.					25,000
2.	M/s. U.M.S. Radio Factory, Coimbatore	•			•	10,000
3.	M/s. P.Obul Reddy, 31, General Patters Road, Madras-2.	•	•		•	20,000
14.	M/s. Electronichemical Compon Flat IC, Agarchand Mansion, 35, Manish Road, Madras.	ents Co.,			•	10,000
ł5.	M/s. Atlas Radio and Electronic Plot No. 57, G.I.D.C., Industrial Township, Naroda, Ahmedabad	Industry I	Private Lin	nited,	•	12,000
16.	M/s. Ajco Electroncics, 47/21, Yerandawana, Poona-4.			•	•	2,000
17.	M/s. Grewal Radio Company, Salem Tebari, Ludhiana-1.	सन्यमेव	जयते	•	•	6,000
18.	M/s. Sharma Engg. Corporation (Private) Limited, 174, Industrial Area, Chandigarh-2.	.		•		5,000
1 9.	M/s. Ashoka Radio, G.T. Road, Ludhiana.	•	• .	•	•	6,000
50.	Shri P.K. Modi, Prop. M/s. Parushi Electronics, Opp. Mahavir Jain Temple, Gandhi Road, Ahmedabad.		•			5,000
51.	M/s. Mao Electronics (India), 44, Sardar King Society, Shalpur Bhai Centre, Ahmedabad.					5,000
2.	M/s. Parry Industries, Opp. Jain Temple, Gandhi Road, Ahmedabad.					5,000

APPENDIX III-contd.

(1)		(2)								(3)
53.	M/s. James Electron 627/A, Lambeshwar Relief Road, Ahmedabad-1.	ics, Pole,				•	•			5,000
54.	M/s. Asahi-Piexo Mio Industrial Estate-Co Old Goa.		Compa	any,	•		•			5,000
55.	M/s. Mahindra Radi 2100, Choppi Tank Meerut, U.P.	o and Te	elevisior	Corp	poratio	on,	•			5,000
66.	M/s. Eskay Industrie B-23, Industrial Esta Hyderabad (A.P.)					•	•	•	•	5,000
57.	M/s. Echjay Electron Kanjur Village Road Bhandup, Bombay-78.		te Limi	ted,		7.	•	•		2,000
			63			B _T	OTA	L		5,38,900
	List of Approved Si	mall Scale		YJh U	oix I\ ufactur		Record F	Players	Record	•
51. No			Units fo	YJh U	444					(In Numbers
61. No			Units fo	YJh U	444					Changers (In Numbers pacity per annum
(1)		ss of the V	Units fo	YJh U	444				oved car	(In Numbers
(1)	o. Name and addre	ss of the V	Units fo	YJh U	444				oved car	(In Numbers
(1)	n. Name and address RECORD PLAYERS Arun Hosiery Mills, 151, Okhla Industrial	(2)	Units fo	YJh U	444				oved car	(In Numbers pacity per annum 5,000
(1) 1. 2.	RECORD PLAYERS Arun Hosiery Mills, 151, Okhla Industrial New Delhi. P.Obul Reddy, 31, General Patters R	(2) Estate, Load,	Units fo	YJh U	444				oved car	(In Numbers pacity per annum 5,000
(1) 1. 2.	RECORD PLAYERS Arun Hosiery Mills, 151, Okhla Industrial New Delhi. P.Obul Reddy, 31, General Patters R Mardar-2. Ramesh K. Agarwal 7-A/71, W.E.A. Karo	Estate, Coad, bl Bagh,	Units fo	YJh U	444				oved car	(In Numbers pacity per annum 5,000 10,000 15,000
A. 1.	RECORD PLAYERS Arun Hosiery Mills, 151, Okhla Industrial New Delhi. P.Obul Reddy, 31, General Patters R Mardar-2. Ramesh K. Agarwal, 7-A/71, W.E.A. Karo New Delih. I.P. Gupta, 53/77, Ramjas Road,	Estate, Load, Bagh, Karol Ba	Units fo	YJh U	444				oved car	(In Numbers pacity per annum 5,000

APPENDIX IV-contd.

(1)	(2)				(3)
7.	Monnage Industries, Plot 17, Sector 6, Industrial-cum-Housing Estate, Faridabad, (Haryana)				5,000
8.	The Gibbs Radio Phone Company, 2698, Original Road, Karol Bagh, New Delhi		•	• ,	5,000
					77,000
3.	RECORD CHANGERS				
1.	Echjay Electronics (P) Limited, Kanjur Village Road, Bhandup, Bombay-78			•	5,000
2.	Electro Plastics (India) Ltd. D-68, Lajpat Nagar, New Delhi		•	•	5,000
3.	General Electronics, 14/15-F, Connaught Place, New Delhi	•	•	•	3,600
4.	Western Electronics Limited		•	•	5,000
5.	General Radio Corporation, 2/2, Jhandevalan Industrial Scheme, New Delhi	•	•	•	5,000
6.	M.M. Industries, Rattan Nagar, Churu (Raj.)		•		5,000
7.	Asiatic Conductors, 519, Turab Nagar, Ghaziabad	•	•	•	5,000
8.	Vitavocks, 922/923, Faiz Road, Karol Bagh, New Delhi.				E 000
	110W DOM:	•	•		5,000 38,600

Appendix V

Names and Addresses of the Units Visited by the Commission in connection with the proposals of Telerad

- Telerad Private Limited, Saki-Vihar Road, Chandivili, Bombay.
- *2. The National Radio and Electronics Co. Ltd., Unity House, M.Parmanand Marg, Bombay-4.
- 3. Analogue and Digitol Company, Electronic Industrial Estate, Bhesari, Poona.

^{*}Discussions only were held with the senior management of NELCO.

- 4. Bagga Electronics, Electronic Industrial Estate, Bhesari, Poona.
- 5. Sanes Varicon Electronics, Industrial Estate, Bhesari, Poona.
- 6. Ajco Electronics, Prabhat Road, Poona.
- 7. Semi Conductors Private Limited, 4/5, Milestone, Ahmednagar Road, Poona-14.
- 8. Echjay Electronics Private Limited, Kanjur Village Road, Bhandup, Bombay-78.
- 9. Murphy India Limited, Eastern Express Highway, P.O. Box No. 104, Thana, Maharashtra.
- The Gramophone Company of India Limited, 33-Jessore Road, Dum Dum, Calcutta-28.
- 11. Electrical and Electronic Industries, 21, Sooterkin, Calcutta-13.
- 12. Mulchandani Electrical and Radio Co. Ltd., Sukh Sagar Nyayamoorthi Sitaram Palkar Marg. Bombay.
- 13. Ahuja Radios, 215, Okhla Industrial Estate, New Delhi-20.
- Priti Electronics Private Limited, F-21, Jangpura, Extension, New Delhi-14.
- 15. Bhatty Electronics Corporation, C & D, Government Industrial Estate, Kandivilli, Bombay-57.

No. 1/38/72-M. III

सन्धमन जयन

GOVERNMENT OF INDIA

MINISTRY OF LAW, JUSTICE AND COMPANY AFFAIRS,
DEPARTMENT OF COMPANY AFFAIRS,
SHASTRI BHAWAN, 'A' WING, FIFTH FLOOR,
Dr. RAJENDRA PRASAD ROAD

BEFORE THE CENTRAL GOVERNMENT

In the matter of two notices under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969.

AND

In the matter of two proposals of M/s. Telerad Pvt. Ltd. for effecting substantial expansion by undertaking the manufacture of (i) Record Players/Changers and (ii) Tape Recorders.

M/s. Telerad Private Limited (hereinaster referred to "as the applicant company") gave two notices dated 29-6-72 & 18-8-72 under section 21 of the Monopolies and Restrictive Trade Practices

Act, 1969, (hereinafter referred to as the "Act") seeking approval of the Central Government for its proposal for effecting substantial expansion by undertaking the manufacture of (i) Record Players/Changers and (ii) Tape Recorders as indicated below:—

S.No.	Item			Capacity Proposed.
(i) (ii) <i>T</i>	Record Players/Changers . Sape Recorders		•	50,000 Nos. per annum.
(a)	Two speed (Portable and Mains)		•	30,000 Nos. per annum.
(b)	Three Speed (Mains)	•	•	10,000 Nos. per annum.
(c)	Cassette Tape Recorders .		•	10,000 Nos. per annum.
	TOTAL .			50,000 Nos. per annum.

These two proposals together envisaged an investment of Rs. 80 lakhs. The cost was subsequently revised by the applicant company to Rs. 29 lakhs being the cost of machinery and equipment for the projects. The applicant company is registered under the Act as an undertaking falling under section 20 (a) (ii) of the Act.

- 2. As required under the Rules framed under the Act, the proposal relating to manufacture of Record Players/Changers was advertised by the company in the "Indian Express" dated 13th October, 1972 and "The Commerce" dated the 14th October, 1972. The proposal for manufacture of Tape Recorders was advertised by the company in the "Indian Express" dated 18th October, 1972 and "Commerce" dated 21st October, 1972. No objections were lodged with the Government against any of these two proposals of the applicant company.
- 3. On the basis of the information available to it, the Central Government came to the conclusion that no order under section 21(3) (a) of the Act could be made in this case without further enquiry. Accordingly in exercise of the power conferred by clause (b) of sub-section (3) of section 21 of the Act, the Central Government referred these two proposals to the Monopolies and Restrictive Trade Practices Commission (hereinafter referred to as "The Commission") for further enquiry and report.
 - 4. The Commission in its report made the following recommendations:—
 - (i) Telerad may be permitted to undertake the expansion as proposed and set up a capacity for producing 50,000 sets of Tape Recorders and 50,000 sets of Record Players/Changers.
 - (ii) This expansion should be completed within a period of five years from the time approvals under the Monopolies and Restrictive Trade Practices Act, I (D & R) Act and the Capital Goods Committee are received.
 - (iii) In order to avoid delay in completing the expansion scheme and possible pre-emption, it should be laid down that the 'Capacity approved' would be brought down to the actual capacity in operation at the end of the five-year period stipulated under item (ii) above.
 - (iv) The applicant company should undertake to export 20% of the output of Record Players/ Changers and 40% of its output of Tape Recorders.
 - (v) In case the applicant requires to obtain outside finance during the period of expansion, it should first approach term financing institutions in the public sector and accept loans with a convertibility clause if the institutions wish to impose it. Only if the term financing institutions are not in a position to provide the loans required, would the company be free to resort to other sources, including its parent company or other interconnected companies?

A copy of the report of the Commission was supplied to the applicant company and each of the persons who had disclosed their interest before the Commission.

- An opportunity of being heard in terms of section 29 of the Act was given to the applicant company and other interested parties who had disclosed their interests in the proposals to the Commission during the enquiry. The representatives of the Small Scale Electronics Industries Association, Bombay only were present at the hearing. At the hearing the representatives of the applicant company confirmed that all the conditions suggested by the commission were acceptable to it. But they asserted that since the capital cost of the project was only to Rs. 29 lakhs it could be met from the company's internal resources and fresh issue of capital was not called for. The representatives of the Small Sclae Electronic Industries Association mentioned that the applicant company being belonged to larger house and the proposed items of manufacture were not open to it. The capacity recommended by the Commission for the company was very large and no particular economy of scale was likely to result particularly when according to the commission, it is an assembly job and 87% of the components were to be bought from the outside. It was further stated that the Small Scale units would be at great disadvantage if the proposal of the company was allowed. The claims of the company for technological competence and know-how were not correct as the research facilities of Sarabhai Electronic Research Centre on whose expertise the applicant company proposed to draw did not possess any special know-how; there was no certainty that the export obligation suggested by the Commission would be fulfilled by the applicant company, and that the capacity already licensed is mere than the expected demand. The representatives of the applicant company replied that Sarabhai Electronic Research Centre was a sponsored research. Unit of the Sarabhai group and the observations made by the commission in its report were based on the physical inspection of the unit by the commission itself. As regards the role of small scale units in this field the representatives stated that this question had been gone into several times by various Government's agencies and that it was not necessary to re-open that question. The company, proposed to obtain 87% of the components from outside and this would act as fillip to the development of ancillaries. The applicant company was not in favour of issuing fresh capital to the public because of the large accumulated losses. They also regretted their inability to make a fresh issue of capital at a stage when the company started earning profits.
- 6. The recommendations of the Commission have been carefully examined by the Government keeping in view the relevant facts and circumstances of the case including the view points putforth by the applicant company and the objectors in the course of hearing. It was felt that the only justification for allowing a large house to enter into this field was export angle and that purpose could be served well by a company having good contacts abroad as in that case the volume of production of such a large house would not swamp the internal market. If a capacity of 50,000 Nos. for Tape Recorders as recommended by the Commission was allowed with an export obligation of 40% it would result in the release of about 30,000 nos. Tape Recorders in the Internal Market. Consequently, the applicant company would be in a position to dominate the domestic market. At the same time in order to allow such a large house to have sufficiently vide indigenous base for enabling it to undertake. Export of sizable quantity it was considered that a capacity of 50,000 Nos. per annum of Record Players/Changers with an export obligation of 60% and a capacity of 20,000 Nos. of Tape Recorders with an export obligation of 40% could justifiably be allowed. It was also considered that the applicant company should have no difficulty in meeting the export obligations as suggested above.
- 7. Having taken into consideration the recommendations made by the Commission and also the view put forth by the applicant company and the interested parties at the time of hearing and other relevant information available to it, the Central Government was satisfied that it would be expedient in the public interest to accord approval to the aforesaid proposals of the applicant company subject to the conditions mentioned hereinafter in this Order.

ORDER

The Central Government, in exercise of its power conferred to it by the clause (c) of sub-section(3) of section 21 of the Monopolies and Restrictive Trade Practices Act, 1969 read with section 54 thereof hereby accord its approval to the proposals of M/s. Telerad Private Limited the applicant company for manufacture of (i) Record Players/Changers; and (ii) Tape Recorders and to the connected schemes of finance as contained in its Notices dated the 29th June, 1972 and 18th August, 1972 respectively, under section 21 of the M.R.T.P. Act, subject to the conditions stipulated in the letter of intent/industrial licence and further subject to the following conditions:—

(i) The applicant company shall be permitted to undertake the manufacture of 50,000 Nos. of Record Players/Changers and 20,000 Nos. of Tape Recorders.

- (ii) The applicant company shall undertake export of 60% of the production of Record Players/Changers and 40% of Tape Recorders.
- (iii) This expansion shall be completed within a period of five years from the time approvals under the MRTP Act; the I (D & R) Act and of the Capital Goods Committee are received.
- (iv) The capacity permitted at item (i) above shall be brought down to the actual capacity in operation at the end of the five year period stipulated at item (iii) above.
- (v) In case the applicant company requires to obtain outside finance during the period of expansion, it shall first approach term financing institutions in the public sector and accept term loans with a convertibility clause if the institutions wish to impose the same. If the term financing institutions are not in a position to provide the loans required only then the applicant company would be free to obtain finance from other sources, including its parent company or other interconnected-companies.

(Sd.)

A.K. GHOSH

Under Secretary to the Government of India

New Delhi Dated the 21st Feb. 74



REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF VIDYUT METALLICS, CALCUTTA

सन्यमेव जयते



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Report under Section 21(3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969— M/s. Vidyut Metallics (Prop. Panama Private Ltd.), 12, New C.I.T. Road, Calcutta

M/s. Vidyut Metallics (Proprietor Panama Pvt. Ltd., Calcutta) (hereinafter referred to as Vidyut Metallics) submitted an application on the 15th February, 1971 to the Government of India, Department of Company Affairs, New Delhi seeking the said Government's approval for effecting substantial expansion in its existing safety razor blade factory at Thana (Maharashtra). The Company's proposal is to expand the present capacity of 90 million nos. to 250 million nos.

2. On 1st October, 1971 the Department of Company Affairs vide its letter No. 1/37/71-M(I) (III) referred this application to the Monopolies and Restrictive Trade Practices Commission for enquiry and report under Section 21(3)(b) of the M.R.T.P. Act, 1969. The last date for the submission of the Commission's report which was originally 29th December, 1971 was extended under Section 30(2) of the Act to 29th February, 1972.

Brief history relating to incorporation, etc. of the Applicant Company

3. The applicant company is presently registered as a private limited company. It was originally incorporated as a public limited company, but subsequently converted into a closely held private limited company. It was a public company which had been started by Sir Swaroop Chand Hukam Chand at Indore. The factory was lying idle for 2 years when Malhotras took it over and transferred the machinery to Bombay. To a question as to why this company was converted into private company, it was explained that in the earlier years the entire time of the Malhotra family members was occupied on the technological problems and they did not have the management expertise for maintaining all the books required in the case of a public company. Therefore they considered it better to convert it into a private company. The name of "VIDYUT METALLICS" is still being continued because the original licence was procured by Sir Swaroop Chand Hukam Chand in his name.

Share Capital and Shareholders

4. The authorised capital of this company on 30th September, 1970 was Rs. 25 lakhs divided into 4,900 preference shares of Rs. 100/- each and 2,00,100 equity shares of Rs. 10/- each. The issued and subscribed capital was 4,44,490 divided into 29,429 equity shares of Rs. 10/- each fully paid and 49,300 equity shares of Rs. 10/- each rupees 3 per share called up and paid up. On the said date the company's reserves consisted of 17,50,000 lakhs consisting of 11.30 lakhs as general reserves, 6.14 lakhs development rebate reserve and Rs. 5,600 representing credit balance of profit and loss account.

5. The main shareholders of the company who hold 96% of the total shares in the company are:—

	Name of the shareho	Value of shares held	Voting l power (Approx. %)							
1.	Mr. Harbans Lal Malhotr	a .	•				•		72,000	30.5%
2.	Mr. V.P. Malhotra .	,	•			•	•	•	1,87,640	45%
3.	Mrs. Lajja Malhotra .		·			•			1,560	•••
4.	Master Navin Parkash Ma	lhotra				•			56,000	7%
5.	Mr. S.N. Malhotra .				•				36,720	5%
6.	Mr. R.K. Malhotra .	•	•	•	•				18,310	••
7.	Mr. V.P. Malhotra and M lya Rani Charity Trust	Ir. S.N	. Ma	lhotra	Trus	tees, o	f Kau	sha-	72,260	9%
									4,44,490	96%

- 6. The above details regarding shareholdings will show that the company is entirely controlled by the members of the Malhotra family consisting of Shri Harbans Lal Malhotra, his three sons S/Shri V.P. Malhotra, S.N. Malhotra and R.K. Malhotra and ladies and children of the family.
- 7. The applicant company has admitted inter-connection with the following 10 companies of the Group:-
 - 1. 7 M/s. Harbans Lal Malhotra & Sons Pvt. Ltd.
 - 2. M/s. Indo-Swing Pvt. Ltd.
 - 3. M/s. Malhotra Export House Pvt. Ltd.
 - 4. M/s. Navin Industries & Mercantile Corpn. Pvt. Ltd.
 - 5. Permasharp Razors Pvt. Ltd.
 - 6. Raj Commercial Corporation.
 - 7. Malhotra Trading Co. Pvt. Ltd.
 - 8. Malhotra Spear Jackson Saws Mfg. Co. Pvt. Ltd.
 - 9. Supermax Marketing and Services Pvt. Ltd.
 - 10. Bharat Marketing & Advertising Co.

All of 12, New C.I.T. Road, Calcutta-12.

- 8. Of the above M/s. Harbans Lal Malhotra & Sons Pvt. Ltd. and M/s. Indo-Swing Pvt. Ltd. are concerns inter-connected with the applicant company who are manufacturing blades. The factory of M/s. Harbans Lal Malhotra & Sons Pvt. Ltd. is at Calcutta and that of Indo-Swing Pvt. Ltd. at Hyderabad. M/s. Permasharp Razors Pvt. Ltd. are also dealing in blades, but they themselves do not manufacture blades. All the export of blades are routed through M/s. Malhotra Export House Pvt. Ltd. M/s. Raj Commercial Corporation and M/s. Bharat Marketing & Advertising Co. are doing the distribution work relating to sale of blades. They are partnership concerns where the members of Malhotra family, their ladies and minor children are partners. M/s. Supermax Marketing and Services Pvt. Ltd., Calcutta is supposed to be an investment company holding shares and securities and earning dividends on investments. Income by way of service charges is also earned by this Company. M/s. Malhotra Trading Company Pvt. Ltd. owns immovable properties which have been let out on rent. Besides, this company also holds shares in some companies. M/s. Navin Industrial and Mercantile Corporation Pvt. Ltd. is reported to be engaged in the business of carrying on job work. M/s. Harbans Lal Malhotra & Sons Pvt. Ltd. are owning a factory at Calcutta in Kamarhatti area where carbon steel rods are pressed and hack-saw blades are manufactured. The building and machinery in this factory is owned by the said M/s. H.L. Malhotra & Sons Pvt. Ltd. and job works are done on the same by the above mentioned company.
- 9. M/s. Malhotra Spear Jackson Saws Mfg. Co. Pvt. Ltd. manufacturers circular saws. A collaboration agreement was entered into between M/s. H.L. Malhotra & Sons Pvt. Ltd. and Spear and Jackson Ltd. of Sheffield, U.K. on 20th September, 1960 for the formation of a company in India to be known as Malhotra Spear Jackson Mfg. Co. Pvt. Ltd. and for setting up a factory in Thana, Bombay for the production of Circular Saws in India.
- 10. The details regarding the authorised capital, issued and subscribed capital and the value of assets of the various companies on the basis of latest available balance sheets can be seen from Annexure 'A' to this report. A scrutiny of the published accounts, director's reports and other information furnised by this company indicates that all these companies are closely held companies of the members of the family of Malhotra Group. The value of the assets of all these companies (including the applicant company) was Rs. 565 lakhs on the date of application.

Details regarding the present proposal of expansion

11. As already stated, the company proposes to expand the present capacity of 90 million blades to 250 million blades per annum. The values of fixed assets of the company before expansion and after expansion will be as under:—

Details of Fix	ed A	ssets					Existing as on 30-9-1970	Additional	Total	
Land			•				1.29 lakhs		1.29 lakhs	
Buildings				•			10 lakhs	5 lakhs	15 / lakhs	
Plant & Machine					•			10 lakhs	40.45 lakhs	

The requirements of imported raw materials to achieve the full capacity of 250 million pieces of razor blades has been worked out as under:—

Raw materials	requir	ement	s				mil raze	or blades	2nd year 250 million pcs. razor blades Rs. (C.I.F.)
Stainless Steel Strips	•			•		,	20	lakhs	30 lakhs
Carbon Steel Strips		•					8	lakhs	8 lakhs
Grinding Wheels and o	ther c	onsun	nable	stores	0		5. 9	0 lakhs	7 lakhs
		4		3			39.9	0 lakhs	45 lakhs

12. The capital expenditure of Rs. 15 lakhs will be spent in two stages i.e. Rs. 10 lakhs (consisting of building Rs. 3 lakhs and plant and machinery Rs. 7 lakhs) in the first year and Rs. 5 lakhs (consisting of 2 lakhs on building and 3 lakhs on plant and machinery) in the second year. The company feels that considering that in the year ending 30-9-1970 the Co. has generated funds to the extent of Rs. 12.84 lakhs, it will be able to generate funds from the internal resources for the next two years more or less on the same level and will be able to meet the requirements in respect of the capital expenditure from its own internal resources. The requirements of working capital will be met by overdraft facilities from the banks. The company claims to have utilised only Rs. 11.21 lakhs against the permissible overdraft facilities of Rs. 15 lakhs given to it by its bankers and therefore there is still a provision of nearly Rs. 3.79 lakhs from the existing overdraft facilities itself.

Past activities of the applicant company

13. The company's sanctioned capacity for razor blades was 24 million pieces upto the year 1962. Licence No. L/12-3/2/LEI(A)62 dated 30th March, 1962 increased the sanctioned capacity of razor blades of the company from 24 million pieces to 90 million pieces per annum. With this licence the company accepted and export commitment to the extent of 50% of the additional production resulting from the expansion. The company exceeded the limit of 90 million pieces in the past three years, but it has never met the commitment regarding exports made by it at the time of grant of licence in the year 1962. The position regarding production, export commitment and actual exports made by the company in the last 5 years i.e. 1967 to 1971 as reported by it has been found to be as under:—

	Calenda	r Yeai	r							Production in million pcs.	n Export commit- ment (Million pcs.)	Export (Million pcs.)
1967			•	•				•		59.8	17.90	2.20
1968						•		•	•	70.06	23.03	17.02
1969	•	•		• 4		•		•		114.93	45.47	4.80
1970	•	•	•	•	•					162.33	69.17	49.03
1971	•	•	•				•			137.86	56.93	50.34

Enquiries made by the Commission from the Department of Industrial Development reveal that the company's applications for expansion for increase in the existing capacity were turned down earlier by the said Department on the ground that it had not been able to reach the commitment rearding exports. In November, 1966 the company again made an application for substantial expansion for an additional capacity of 160 million nos. of safety razor blades. The proposal was to raise the present capacity from 90 million nos. to 250 million nos. This proposal involved at that time import of capital goods valued at Rs. 5 lakhs and additional raw materials worth of Rs. 12 lakhs per annum. This application was rejected by the Ministry on 9-8-1967 on the following grounds:—

- (i) The capacity already licensed for razor blades had not been achieved in full.
- (ii) The condition regarding exports of 50% of additional production subject to which expansion scheme (raising the capacity from 24 million nos. to 90 million nos.) was approved earlier, had not been implemented.
- 14. The company again applied for an expansion licence in May 1969 repeating its earlier proposal envisaging the same import requirements as mentioned above. This proposal of the company was also turned down for the following reasons by the Licensing Committee:—

"The Committee recommended that the application of M/s. Vidyut Metallics for substantial expansion for the manufacture of safety razor blades may be rejected, as it was noted that this is a case of dominant undertaking and that the non-resident holding in the equity capital of M/s. Panama (Pvt.) Ltd. (who are the proprietors of M/s. Vidyut Metallics) is held by Shri H.L. Malhotra, who has been treated as a non-resident for exchange control purposes by the Government of India."

The application was finally rejected on 3-7-1970.

After this rejection the company has now come up with the present aproposal.

15. On the present proposal of the company, the comments of the Directorate General of Technical Development and Ministry of Industrial Development have been called for. Their comments are as under:

Directorate General of Technical Development

"In our earlier note we indicated that razor blade industry is not a planned industry. Moreover, the item razor blade is a consumer article, as such exact demand for this article cannot be estimated. However, earlier it was felt that there may not be any necessity for encouraging fresh capacity in this field of manufacture because the existing units with maximum utilisation of the plant and equipments would be in a position to achieve production to the extent of the earlier expected demand of 2600 million nos. of razor blades by the end of 1973-74. But since there was dominancy in this field of manufacture by one group, it was decided by the Government to break this monopoly by encouraging new entrepreneurs in this field of manu-Accordingly a rumber of schemes from different entrepreneurs have been recom-At present there are 7 units in the list of DGTD manufacturing this mended in this context. item with a total licensed/reigstered capacity of 2160 Million Nos./annum. Besides schemes of 7 units for a total capacity of 1760 million Nos./annum have been considered by the Licensing Committee and letters of intent have already been issued by the Ministry of I.D. in favour of these parties. In addition to this we have also received three new schemes for the manufacture of razor blades for a total capacity of 630 million Nos./annum. If all these capacities are taken into consideration then the total projected capacity in this industry comes to 4550 million Nos./annum."

It is a fact that M/s. Vidyut Metallics Ltd. belong to the group of M/s. Harbans Lal Malhotia and Sons Pvt. Ltd., Calcutta, who are holding substantial portion of the existing installed capacity of razor blade industry. Although M/s. Vidyut Metallics belong to this group but raw materials assistance etc. is rendered to each unit separately on the basis of the performance of individual unit and not on the basis of the performance of a particular group of companies. The existing capacity of M/s. Vidyut Metallics Ltd., Bombay, is 90 million Nos./ annum and the same was considered to be technically uneconomical being a separate unit even though they may belong to the group holding substantial capacity. On the basis of the indication given by the sub-committee of the Planning Commission, a unit having a capacity of 250 million blades/annum is considered an economic unit. While commenting on the earlier expansion proposal of M/s. Vidyut Metallics Ltd., Bombay, it was suggested by the

D.G.T.D. to the Licensing Committee for transfer of part of the capacity of M/s. Harbans Lal Malhotra & Sons from Calcutta to M/s. Vidyut Metallics being an uneconomic unit of the sister concern so that the overall capacity of this group of companies is not altered but the same was considered by the Licensing Committee as an impracticable proposition under the existing industrial policy. In our opinion the export performance of M/s. Vidyut Metallics is quite encouraging as compared with the performance of other units. Earlier expansion proposal of M/s. Vidyut Metallics was rejected by the Licensing Committee on the 3rd July, 1970. However during 1971, they submitted another application for expansion of their proposal under an export oriented scheme. Since such schemes are considered by the Ministry of Foreign Trade, the D.G.T.D. requested the Ministry of I.D. to refer the case to the Ministry of Foreign Trade for scrutiny. D.G.T.D. is not aware of the present position of the firm's proposal under export oriented scheme as we have not received any intimation so far from the Ministry of Industrial Development."

16. Ministry of Industrial Development:

"On 20-1-1971, M/s. Vidyut Metallics again applied for expansion of their capacity from 90 million nos. to 250 million Nos. per annum. In their application they had stated that they were prepared to export 50% of the expanded capacity by the next year and try their best to raise the export to 60% of their expanded capacity within a period of three years, and earn, out of their exports, more than sufficient foreign exchange to finance their raw materials requirements. The Ministry of Foreign Trade and the Ministry of Industrial Development both recommended the scheme as it was heavily export-oriented. The application was considered in the meeting of the Licensing Committee held on 7-8-1971 but a decision was deferred, pending further consideration of the case in the Ministry of Industrial Development. The present position, therefore, is that no decision has yet been taken on the application. The main reason which recommended the application to the Ministry of Industrial Development was the possibility of very substantial export within three years to the extent of 60% of the expanded capacity."

17. Performance of other units of the group, inter-connected with the applicant company, who are manufacturing safety raior blades:

(i) M/s. Harbans Lal Malhotra and Sons Pvt. Ltd.

This company is engaged in the business of manufacture of safety razor blades since the year 1950. The company was incorporated in 1945. The present directors of this company, besides three Malhotra brothers namely: S/Shri V.P. Malhotra, S.N. Malhotra and R.K. Malhotra include S/Shri H.L. Kapoor, M.C. Anand, R.P. Sawhney and B.M. Anand. The latter four persons seem to be associated with Malhotra companies in one way or the other. This Company's factory is at Calcutta.

18. The initial sanctioned capacity of this company was 500 million blades per annum on single shift basis. This was increased to 1,000 million blades vide Industrial Licence No. L/12-3/60-LEI (A), dated 5th November, 1960. The said sanctioned capacity was further increased to 1,500 million blades per annum vide Industrial Licence No. L/12-3/1-65 LEI(A), dated 17-8-1965.

19. The production of this company as reported by it in the last five years (calendar year-wise) was as under:—

Year						٠						Production in million nos.
1967				•			•				•	565.52
1968									•			536.54
1969		•	•		•	•		•			• .	600.26
1970			•		•					• ,	•	525.40
1971												276.99

20. When licence was granted to the company in the year 1965 increasing the sanctioned capacity from 1,000 to 1,500 blades per annum, the company undertook to export 50% of the production exceeding 1,000 million blades per annum. As the production never exceeded the target of 1,000 million pieces, the company was not required to honour its export commitments. However the following exports were made by the company in the year 1967 to 1971:—

Year													Export in million
		·		·			·					, , , , , , , , , , , , , , , , , , , 	pieces
1967				•		•							53.40
1968		•					٠.						84.80
1969	•		•	•				٠.	•				82.50
1970		•	•		•	•				•	•	٠.	16.80
1971				•					•	•			7.35

- 21. The above statistics regarding licensed capacity and production will show that the company has not been able to reach even 50% of the capacity of 1,500 million pieces licensed in the year 1965. This company was asked to intimate the reasons for the same and in its reply dated 4th February, 1972 has given the following reasons:
 - (i) Unsettled conditions in West Bengal and inter-union rivalry in the factory,
 - (ii) Inadequate supply of imported raw materials,
 - (iii) The machinery having become out-moded and obsolete needing complete modernisation.
- 22. This company is also having another factory in the Kamarhatti area of West Bengal where it manufactures 'Hacksaw Blades, Metal Cutting Bandsaw Blades, Wood Cutting Bandsaw Blades, Steel Files, Wax paper and Cold Rolled Steel Strips'. This company manufactures the following brands of blades:—
 - (a) Bharat,
 - (b) Bharat Silikone,
 - (c) Prince Blue,
 - (d) Silver Prince,
 - (e) Ashoka Stainless,
 - (f) Panama,
 - (g) Panama Silikone and various other export brands.

23. The selling price of the different brands of the safety razor blades to the distributing firms in the last five years, as reported by selling firms, were as under:—

Brands				Pr	ice per	Packet of	100 Blades	
		 		1967	1968	1969	1970	1971
Bharat		•	•	3.50	3.50	3.50	3.50	3.50
Bharat Blue .			•	4.60	4.60	4.60	4.60	4.60
6 Morning .			• •	4.30	4.30	4.30	4.30	4.30
6 Morning Thin				6.90	6.90	6.90	6.90	6.90
Prince Blue .				7.55	5. 5 5	7.55	7.55	7.55
Silver Prince Stain	less		•	20.00	20.00	20.00	20.00	(20.00)
							(Less 25%	Discount
								4

(ii) Indo-Swing Private Ltd.

24. This company, which was incorporated in the year 1960, is engaged in the business of manufacture of safety razor blades at Hyderabad. Its present directors are S/Shri S.N. Malhotra, R.K. Malhotra, H.L. Kapoor, M.C. Anand, R.P. Sawhney and B.M. Anand. Initial sanctioned capacity for this company was 102 million pieces of razor blades per annum on single shift basis. Expansion was allowed by the Government of India vide Industrial Licence No. L/12-3/2/65-LEI(A), dated 16th August, 1965 to 250 million pieces blades per annum. When the capacity was expanded from 102 million pieces to 250 million pieces, the company was committed to make export equal to 50% of the expanded capacity i.e. 50% of the production over 102 million pieces.

25. The following statement submitted by the Co. will indicate the production made by the company, its export commitments, actual exports and shortfall in the exports:—

Calenda	ar Yea	r					Production (Million	Export Commit-	Export (Million	Short fall,
					- 		Pcs.)	ment (i.e. 50% Million Pcs.)	pcs.)	if any
1967	•	•	•	•		•	101.43	Nil	5.90	Nil
1968	•		•			.•	89.79	Nil	1.50	Nil
1969	•		•		- 53	Com.	106.89	2.45	19.17	Nil
1970			•	56	STE		126.83	12.42	5.65	6.77
1971				8			125.02	11.51	15.72	Nil

26. The above figures will indicate that the company has been able to reach only 50% of the installed capacity upto the year 1971. The main reason for not being able to reach the licensed capacity and consequently export targets has been stated to be non-availability of raw-material. During the course of the discussions with the representatives on 10th February, 1972, it was stated by the representatives that for production of over 102 million pieces they are required to obtain raw materials from the export earnings and since this company is manufacturing only carbon steel blades and the market abroad for these blades has very much fallen due to increasing demand for stainless steel blades, it was not possible for the company to export these carbon steel blades and thus earn foreign exchange which may enable them to procure raw material for this company. Hence, it has not been able to reach the licensed capacity in the case of this company also.

- 27. This company has one razor blade factory situated at Hyderabad and is not manufacturing any other products besides safety razor blades. The brands which this company is manufacturing are:—
 - (a) Panama Carbon,
 - (b) Panama Stainless Steel,
 - (c) Sundry Export Brand.

28. The selling price of the different brands of safety razor blades supplied to the distributors by this company, as reported by it, were as under during the year 1967 to 1971:—

Brands	·	Price per	Packet of 1	00 blades	
	1967	1968	1969	1970	1971
	Rs.	Rs.	Rs.	Rs.	Rs.
Panama	4.05	4.05	4.05	4.05	4.05
Ashoka	. 8.35	8.35	8.35	8.35	8.35

- 29. It has been stated by the company that its carbon steel blades are getting severe competition from Czechoslovakia, Hungary and Communist China. Hence the prices obtained for these brands have been very low. The average export price obtained for two brands Panama and Bharat were as under:—
 - (a) Panama Rs. 1.37 per packet of 100 blades
 - (b) Bharat . . . Rs. 1.22 per packet of 100 blades.
 - 30. (iii) M/s, Parmasharp Razors Put. Ltd. Bombay

This company is not manufacturing any blades. It is only carrying on the business of marketing of safety razor blades. Its present directors are:—

- (a) Shri M.C. Anand,
- (b) Shri R.P. Sawhney, and
- (c) Shri B.M. Anand.

This company was incorporated on 15th February, 1967.

31. The company has been engaged in litigation right from the very inception because of purchase of trade mark 'FARMASHARP' from M/s. Harbans Lal Malhotra & Sons Private Ltd. with the Scotland company and M/s. Hind Razor & Blade Company Ltd., now called Centron Industrial Alliance Pvt. Ltd. In view of the litigation, the company's activities in the past years have been showing downward trends. In its profit and loss account for the year ended 31st January, 1971 it has shown sales of the value of Rs. 2,171/- only. The value of its assets on the said date was Rs. 29.000/- (approx.)

Other Blade Manufacturers

- 32. Besides the three companies belonging to Malhotra Group, there are three other concerns who are manufacturing blades at present. They are:—
 - 1. Centron Industrial Alliance (P) Ltd., Bombay.
 - 2. National Razor Blades Co. (P) Ltd., Calcutta.
 - 3. Sharpedge Ltd., New Delhi.

The position regarding their licensed capacity, installed capacity, production etc. during the last new years has been as under:—

सन्धमव जयत

M/s. Centron Industrial Alliance (P) Ltd., Bombay

33. This company which was earlier known by the name of M/s. Hind Razor and Blade Co. Ltd. was incorporated in the year 1949 with an authorised capital of Rs. 10 lakhs and a subscribed capital of Rs. 50,000. The name of this company was changed to M/s. Gentron Industrial Alliance (P) Ltd. in the year 1971. The latest balance-sheet available to the Commission of this company is as on 31st December, 1970 and this indicates that as on that date its subscribed capital consisted of 10,125 equity shares of Rs. 100/- each fully paid-up. Its Board of Directors consists of Members belonging to Dahankur family. The licenced capacity of this company is 100 million numbers. However, the present installed capacity is reported to be only 75 million numbers and the production during the years 1966 to 1970 was as under:—

Year		 	 		· ·			Million numbers
1966	•		•		•		•	23.82
1967	•		•		4			29.30
1968					. •			33.75
1969	•	•.		•		•		21.50
1970								31.13

- 34. The company has stated that it has not reached its sanctioned capacity because of several difficulties which a small manufacturer has to face. However, with the encouragement of Maharashtra Industrial Development Corporation, the company has shifted its factory from Bombay to Aurangabad around June, 1971 and has started production there. It hopes to reach the licenced capacity of 100 million blades per year in the course of next year or two. The company claims to have manufactured its own machinery. It has entered into a technical collaboration agreement with M/s. Parmasharp Ltd. of Scotland. Under this agreement, the company has received technical drawings from the collaborators and some of its personnel had the opportunity of inspecting the actual work of the collaborators factory in Scotland. The company claims to have developed new machinery and invented new processes in the Razor Blade technology. In support of its technical competency, it has stated that an international organisation like Union Carbide of Calcutta have entered into a long term of contract with the company under which it is required to manufacture 200 million Steel-Chrome Blades in the course of 5 years under the trade name given by M/s. Union Carbide. The company has claimed that it is the first in the world to introduce platinum edged blade.
- 35. The D.G.T.D. was asked to give its comments regarding the technical competency of this company as claimed by it before the Commission. Their views in this matter are as under:—

"Regarding the technical competency of M/s. Centron Technical Alliance, Bombay, for the manufacture of razor blades, we may like to mention that they have acquired necessary technical know-how and are progressively improving their products to compete in the International markets. However, we are not aware of their technical competency in the manufacture of plans and equipment for razor blades. In case they are in a position to manufacture sophisticated plants and equipments for the manufacture of razor blades, they may submit a proposal for the Government for taking up the manufacture of these equipments."

One of the Members of the Commission Dr. H.K. Paranjape had an occasion to visit the factory of Centron at Aurangabad. During this visit he found that young graduates of IIM and the IIT have been engaged to provide technical and managerial leadership to the Unit. A few such graduates have been engaged on the work of substituting import machinery and improving them. A small design section and a well equipped tool room have been organized for these purposes. The young engineers working in these seem to be interested as well as competent about being able to perform their tasks. The statistical equality control is well organised in this factory more systematically probably than in Vidyut Metallics in Bombay.

- 36. This factory is, however, manufacturing higher quality blades and, therefore, their competition with Malhotra Group of Companies is only in these fields.
- 37. M/s. Centron in their written representation before the Commission have opposed the expansion proposal of the applicant company on the following grounds:—
- (a) Malhotra Group has constantly shown a tendency to crush small scale manufacturers. As soon as they learnt that Parmasharp Ltd., Scotland have entered into a technical collaboration agreement with this company, they started a war against them and are constantly harassing this company.
- (b) First they applied for the company's collaborators' trade-mark (Parmasharp) but could not succeed because this company had already made an application for that. Thereafter they formed a company with a nominal capital in the name of Parmasharp Ltd. and have filed a suit against Centron which is pending since 1967.
- (c) To harass Centron, Malhotra Group of Companies are applying for the same trade marks for which Centron applies.
- (d) Because of popularity of 'SWISH' blades manufactured by Centron, Malhotras have applied for a trade mark 'SWING' with a design which is exactly identical to the design of 'SWISH' blade. This has been done with a desire to confuse 'Swish' blades with 'Swing' blades.
- (e) Malhotra are harassing and opposing this Company in the field of trade marks on one ground or the other. This company applied for 'JAWAN' and 'SAHAKAR' trade mark for razor blades. Malhotras after coming to know of these marks have applied for the same marks for shaving brushes and shaving soaps.

(f) Malhotras have tried to pass on their products in the past as this Co.'s collaborators product by exactly copying the collaborator's Cartons in every respect. For this Parmasharp Ltd. Scotland have filed a suit against them for 'Passing of' in the Bombay High Court.

(2) National Razor Blades Co. (P) Ltd., Calcutta

- 38. This company manufactures the following brands of blades viz.
- 1. New Metro
- 2. New Prabhat
- 3. Eknumber
- 4. Assorted
- 5. Magnet
- 6. Agsons
- 7. Consulate
- 8. Pilot

The licenced capacity of this company is one hundred million numbers. Its installed capacity has been claimed to be 90 million per two shifts. The production by this company during the year 1966 to 1970 has been under:—

1966	•	•	• •	•	63	PERM	£3.	.			38.66
1967		•	•		16			•	•		23.33
1968	•*		•		- 6		3	•	•		27.37
1969	•	•			1	gyung.	9	•		•	30.65
1970	•	•	•		•	VAL					36.64

These figures will indicate that even in the case of this company, there is considerable unutilized capacity. The main reason given by the company for not being able to reach the sanctoned capacity is the system of inadequate and irregular import licences for raw materials. Unstable political situation in West Bengal has been stated to be another reason for low production.

39. This company has also admitted some exports. The value of exports in razor blades in three year has been as under:—

1968-69	•	• *	•	•	•	•	•		• ,	•	Rs. 2,752
1969-70	. •	•	•	•		•	•	•	•	•	Rs. 1,45,809
1970-71		•			•			•			Rs. 57,820

- 40. Besides safety razor blades, this company also manufactures safety razors and its parts. According to the company the existing capacity if availed of fully is more than sufficient to meet indigeneous demands. The expansion proposal of the applicant company has been oppposed on the following grounds:—
 - (1) This will affect the small scale producers.
- (2) This will strengthen the hold of Malhotras (who are already big monopolist in this field of industry) and affect small manufacturers.
- (3) Malhotra's companies from time to time, are introducing new products made from cheaper products at lower rates to drive away small scale manufacturers.

(3) M/s. Sharpedge Ltd.

41. This company was started as a small scale unit in 1965 with a paid-up capital of Rs. 5 lakhs. However, from the latest balance-sheet, it has been noticed that the paid-up capital has gone up to 13.50 lakhs. The excess of Rs. 8.5 lakhs has been due to issue of shares worth Rs. 8.50 lakhs. This Company was a subsidiary of Escorts Ltd. till 1965 but became a subsidiary of Hindustan Lever

thereafter. The profitability of this unit has been very high. It declared bonus shares twice, once in 1968 and again in 1969. In addition, it has paid very high dividends to its shareholders. It has been declaring dividends at the rate of 70%. It has reserves amounting to Rs. 21.81 lakhs against paid-up capital of Rs. 13.50 lakhs.

43. Information collected from the Company has disclosed that its licensed capacity is 60 million numbers.

It was registered with the D.G.T.D. during the year 1970. Its production in 1970 was 74.29 million numbers.

The export performance of this Company in the past three years has been as under:—

Year								Quantity exported (in million blades)	Value in lakhs
1969	•		•	•	•	•	•	1.44	0.66
1970					•	•	•	2.22	0.99
1971		_		_	_			1.50	0.67

This Company's Erasmic and Alert brands are reported to be popular in export markets. It hopes to make the following exports in the year 1972 to 1974:—

Year				Mill	Quantit in millio blades	y Value in on lakhs
1972		 -	. 1	AT A VA	. 5	2
1973				(Calum) (Calum)	. 10	5
1974	•			सरामेव जणने	. 15	8

During the years 1973 and 1974, it hopes to manufacture and export stainless blades also.

- 44. The application of M/s. Vidyut Metallics has been opposed by this Company on the following grounds:—
- (1) Of the six units manufacturing blades 'MALHOTRAS' with three units control 88% of the licensed capacity. This Group also produces about 85% of the country's blade production.
- (2) Even if the present letters of intent issued are taken into consideration, the share of Malhotra Group in the licensed capacity would work out to 64%.
- (3) Out of the three units of the Malhotra Group, their Calcutta and Hyderabad factories utilise only 35% and 51% of the licensed capacity. As such, they have adequate scope to increase the output.
- (4) Centralisation of large capacity results in frequent, shortages in the market artificial or otherwise leading to high price fluctuations of an essential consumer commodity like razaor blades. Also due to lack of competition deterioration in quality of blades offered to the consumer takes place.
 - (5) The claim by Vidyut Metallics for exports to the extent of 50% needs verification.
- (6) The average rate at which Malhotra Group is exporting blades works to about Rs. 12 per thousand blades which is very low and hardly meets the cost of imported steel. As against this, Sharpedge is exporting at the rate of Rs. 40 to 45 for one thousand blades. Hence the export advantage, if at all, is very nominal in the case of Malhotras.

- 45. Besides the six units discussed earlier who are manufacturing blades and who are registered with the DGTD, the Commission received representations from two other blade manufacturers who are probably working as small scale units. The replies received from them have indicated the following position:
- (1) M/s. Uttar Khand Blades Pvt. Ltd.

The major points made out by this Company in reply are:-

- (i) It is a small unit which went into production in the middle of 1965. Ever since its incorporation it is facing stiff competition from established brands of the monopoly group.
 - (ii) This Company is manufacturing three brands of blades viz.
 - (a) Super Record
 - (b) Record Lyx
 - (c) Hindustan

Its sanctioned and installed capacity is 54 million numbers per year. Its production during three years was as under:—

		Yea	r				No	o. produced	Value in Rs.	
-	1969-70	•				FF	1 -	22,65,500	1,95,000	
	1970-71				A.		E	19,75,000	1,70,000	
_	1971-72 (upto 31:	st Ja	nuary	1972)	1			67,63,100	4,00,000	

The company could not reach its sanctioned capacity because of:

- (a) Though competition from other established monopoly groups;
- (b) Non-availability of spare parts at proper time;
- (c) Old grinding units, which need replacement to cater for the improved requirements.

The representatives of this Company participated in the public hearing given to the applicant company. Their main contention in the public hearing was that Malhotra Group of Companies have tried to cause harm to this unit by trying to copy its brand Record Lyx and for this purpose litigation is going on. The representatives of Vidyut Metallics, however, made the position in this regard very clear and it was found that this allegation of the company regarding infringement of trade mark was not correct.

M/s. T.T. Blades, Bombay

- 46. This Company sent a representation in reply to the public notification issued by the Commission regarding the proposal of M/s. Vidyut Metallics. Its submissions are:—
- (i) This concern took over the ownership of M/s. T.T. Blades and factory of M/s. Orient Cosmetics Pvt. Ltd., on 3rd August, 1970. The Company taken over was manufacturing safety razor blades as a small scale unit. M/s. T.T. Blades has got the unit registered with the DGTD after having crossed the limit of capital goods value of Rs. 7.5 lakhs.
- (ii) The manufacturing capacity of the Unit installed in Bombay is 180 million numbers blades per annum and the capacity of the Madras Factory is 120 million number blades per annum.
- (iii) This concern is not having any foreign collaboration and there is no capital investment for the purchase of imported machinery. It is catering to the needs of Defence Services by supplying blades to Canteen Stores Department (India), Bombay.
- (iv) The submissions of this concern before the Commission are that the applicant Company should not be permitted to expand because their basic intention is to eradicate small manufacturers of safety razor blades from the field and to have a monopolistic position.

This Company was asked to give detailed information regarding actual production, exports etc. but has not furnished the same so far inspite of repeated requests.

Information collected by the Commission from the DGTD has indicated that this Company has recently been registered with the said Directorate for a capacity of 60 million numbers for their Bombay factory. The Company's application for Madras factory is still pending for DGTD's consideration. Since the Company has not sent the information required by the Commission, the Commission has no other course but to proceed with the assumption that this concern's sanctioned capacity is 60 million numbers as reported by the DGTD.

Persons to whom letters of intent have been issued by the Government

47. Besides the above concerns who are already manufacturing blades, the Government has issued letters of intent to the following further concerns:—

S.N	No. Name of the New Units	Capacity	Date of issue of letters of intent
1.	Sh. V. Balkrishna, ,Madurai .	180 million (on double shift)	7-10-71
2.	M/s. Poddar Estate Ltd., Calcutta .	250 million (on double shift)	1-11-71
3.	M/s. Cosmetic Steel Pvt. Ltd.	180 million (on double shift)	1-1-71
4.	M/s. U.P. State Industrial Corporation Ltd.	600 million (on double shift)	1-6-71
5.	M/s. K.P. Aggarwal, New Delhi	100 million (maximum utilisation of plant and machinery)	28-8-71
6.	M/s. Mysore State Industrial Investment and Development Corporation Ltd.	300 million (on double shift)	8-10-71
7.	M/s. Ghaziabad Engineering Co. Pvt. Ltd., New Delhi.	150 million (on double shift)	22-1-72
	TOTAL	1760 million Nos.	,

The Commission has made enquiries from these manufacturers also regarding the process made by them and the replies received from some of them have revealed the following position.

(i) Shri V. Balkrishna, Madurai

The Commission's letter addressed to him has not been replied. It was stated in the interim reply that the requisite information will be supplied before 15th February, 1972. The same has, however, not been received so far.

(ii) M/s. Mysore State Industrial Investment and Development Corporation Ltd.

This Corporation is having negotiations with M/s. Gillette Industries Ltd., U.K. for collaboration for manufacture of razor blades. It has not so far prepared any market survey report or feasibility report. The requisite steel strips will have to be imported and for this arrangement will be made with collaborators. The extent of participation by the collaborators has not yet been decided. The Corporation has stated that expansion proposal of M/s. Vidyut Metallics will affect its interest adversely.

(iii) M/s. U.P. Industrial Corporation Ltd.

This Corporation has informed that it is negotiating with the Indian manufacturers of repute for technical collaboration for the implementation of a project to manufacture 600 million number safety razor blades as a joint venture and a final decision is likely to be taken shortly. However, full details regarding the proposal envisaged by this Corporation have not yet been furnished to the Commission.

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Regarding M/s. Vidyut Metallics, it has been stated that any expansion in their manufacturing activities might adversely affect this Corporation's programme to implement its project.

(iv) Ghaziabad Engineering Company Pvt. Ltd., New Delhi

This Company has not given any details about its proposal. All that has been stated in its letter is that it has been issued a letter of intent for manufacture of razor blades at Loni in the State of U.P. and that the expansion of capacity of Vidyut Metallics will badly affect the interest of the concern. The representative of this Company—Shri S.N. Chopra, Advocate, participated in the public hearing and opposed the application of M/s. Vidyut Metallics mainly on the two grounds:—

- (a) The quality of the blades manufactured by the Company is very poor;
- (b) It is already having a big share in the blade market and any other expansion will only adversely affect smaller units like Ghaziabad Engineering Co. Pvt. Ltd.
- (v) M/s. Poddar Estate Ltd., Calcutta:

The submissions are:-

- (a) This Company has been granted a letter of intent to manufacture 250 million numbers safety razor blades (100 million pcs. stainless steel and 150 million pcs. carbon steel).
- (b) The Company is negotiating for foreign Collaboration. The negotiations are incomplete. Details regarding the name of the collaborator, terms etc. have not been furnished.
- (c) The survey and feasibility reports are still under compilation.
- (d) Raw materials and grinding wheels etc. will be required to be imported.
- (e) Undue concentration of the manufacturing capacity with one company or group should be avoided.

The replies from other persons to whom letters of intent have been issued have not been received by the Commission and, therefore, it has not been possible to find out at what stage their proposals regarding the manufacture of safety by razor blades stand.

48. Enquiries have also been made by the Commission from the Development Commissioner, Small Scale Industries to find out whether it is possible for the small scale units to manufacture safety razor blades. No reply has been received from the Development Commissioner inspite of reminders. However, the Commission understands that it is possible to make blades in the Small Scale Units but being a very sophisticated industry, the quality turned out by such units may not be of required standard.

Applications pending with the Ministry of Industrial Development

- 49. Enquiries made by the Commission have revealed that besides the persons to whom letters of intent have already been issued, the following applications are pending for the consideration of the Ministry:
 - (i) M/s. Precision Machinery Co. Pvt. Ltd., New Delhi:

This Company has applied for a capacity of 180 million numbers (stainless steel 60% and Carbon steel 40%). The proposed capital cost is 41 lakhs which will be invested as under:—

Land and Building . . 6 lakhs
Plant and Machinery . . 35 lakhs

Raw material requirements will be of the order of Rs. 30 lakhs per annum for strips—stain-less steel and carbon, grinding wheels & chemicals. It hopes to raise Rs. 15 lakhs by way of share capital from Directors and Rs. 25 lakhs from public financial institutions. The Company has not indicated the place where it will locate its factory but it appears that it may be in Delhi. The information available with the Ministry does not show that the Company will have any foreign collaboration. Probably it proposes to call technical experts from West Germany. It becomes necessary to pay the royalty, it may be paid at not more than 5% subject to the approval of Government of India.

(ii) M/s. S.G. Agarwal, Jaipur

This gentleman has applied for 300 million numbers capacity per annum comprising of 50% carbon steel and 50% stainless steel blades. His requirements of capital are 75.30 lakhs consisting of 5.30 lakhs in land and building and 70 lakhs in plant and machinery. The annual requirement of raw materials works out to Rs. 47 lakhs per annum. He hopes to get Rs. 52 lakhs by way of equity capital and 32 lakhs as loans from public financial institutions. For another 15 lakhs details do not seem to have been worked out so far.

(iii) M/s. Warner Hindustan Ltd., Hyderabad:

This Company has applied for 150 million blades per annum consisting of 60 to 75% stainless steel and 40 to 25% carbon steel. The Company is having various other activities and proposes to take manufacture of blades as a new line. The requirements of capital have been worked out at Rs. 89.70 lakhs consisting of 20 lakhs on land and building and 69.70 lakhs on plant and machinery. The annual raw material imports will be of the order of Rs. 35 lakhs and the scheme is proposed to be financed from the internal resonrees.

This Company is already having collaboration with Warner Lambert Pharmaceuticals Co. of U.S.A. The foreign company provides technical assistance, research know-how trade mark user rights, and other assistance. Technical assistance for blade manufacturing unit will also be provided by the Warner Lambert of U.S.A. free of cost. However, it appears that one of the important blade manufacturing unit aborad M/s. Schick is a subsidiary of M/s. Warner Lambert of U.S.A.

The total capacity of the three companies whose applications are pending before the Department of Industrial Development is 630 million number blades per annum.

Demand studies regarding Razor Blades

50. Enquiries made by the Commission from various Government Departments regarding demand of razor blades have revealed the following position:—

(1) Planning Commission:

- (a) Safety Razor Blade Industry does not fall under the core sector. Hence no target has been fixed for the manufacture of this item in the Fourth Plan.
- (b) No exercise was made to estimate the demand for this item.
- (c) Planning Commission have not made any reviews regarding manufacture of Safety Razor Blades.

(2) Directorate General of Technical Development

Safety Razor Blades is not a planned industry and, therefore, there is no precise estimated demand for this item. However, it was roughly estimated that the demand for razor blades by the end of the Fourth Plan Period would be 2,600 Million Nos. for which a capacity of 3,250 Million Nos. will be necessary. The phased target of capacity and demand at the end of 1973-74 has been worked out by this Directorate as below:—

	Y	ear		 	÷ ,	Cap	acity in Million Nos.	Demand/production in Million Nos.
19 69-7 0				•			2,250	1,800
1970-71					•	•	2,500	2,000
1971-72					٠.		2,750	2,200
1972-73		•				•	3,000	2,400
1973-74			•		•		3,250	2,600

⁽³⁾ Study in the year 1968 by the D.G.T.D.

The D.G.T.D. during 1968, was asked by the Planning Commission to indicate the present position of the Razor Blade Industry in connection with the formulation of the Fourth Five Year

Plan. During that time the position in this line was reviewed and a detailed note with suggestions was sent to the Planning Commission. Some important points that emerged during this study are mentioned below:—

- 1. The main problem of the Industry is the shortage of raw materials. The basic raw material required for the Industry is High Carbon Steel/Stainless Steel in the form of strips. Besides, special types of grinding stones/wheels are also required. These things are required to be procured from abroad. This position has affected a continuous flow of essential raw materials to the manufacturers.
- 2. There should be no necessity for encouraging fresh capacity in this field of manufacture because overall demand of safety razor blades at the end of 1973-74 would be about 2,600 million Nos. for which a capacity of 3,250 million Nos. will be necessary.
- 3. The present projected capacity of the existing units is 2154 Million Nos. per annum and these units can achieve a total capacity of 3,870 millon Nos. per annum by working on double shift. Therefore, there is no need to licence any additional capacity either through new units or by expansion of the existing units.
- (4) Ministry of Industrial Development:

This Ministry has stated that it has not made any review regarding the Safety Razor Blades Industry. However, it has submitted details regarding licensed or installed capacity and production figures of the existing units and information regarding applicants to whom letters of intent have been issued by the Ministry. Its general observations are, however, as under:—

"In this particular industry, the raw materials (Razor Blades, strips, both High Carbon Steel and Stainless Steel) are fully imported. According to the policy of Government enforced from February, 1970, there is no banned list of industries and no considerations of capacity constraints, so that all applications for licences, for industrial undertakings, if found feasible, are considered on merits. Moreover, in Razor Blades Industry, the earlier established capacity was mainly held by a dominant group. New capacity (including expansion of exising capacity), is therefore, considered advisable for the purpose of either:

- (a) Diluting the dominance of a group; or
- (b) For making existing units with small capacitites into viable units; or
- (c) Ensuring high exports; or
- (d) Encouraging new entrepreneurship."

The share of Malhotra Group of Companies in the present installed capacities and production:

51. The position for 2 years has been looked into. It has been noticed that the share of the 6 companies registered with the D.G.T.D. in the licensed capacity and actual production is as under:—

	Licen	sed capa	city		Production	on	Export	S	lue	
	Licensed capacity (M. Nos.)	% shar in total licensed capacit	l Nos.	% share in total production (1969)	1970 M. Nos.	% share in total production (1970	Rs. lakhs	% shares in 1969	1970 value Rs. lakhs	% share in 1970
	1	2	3	4	5	6	7	8	9	10
1. H.L. Malhoti & sons, Calcu		71.4	633.030	65	525.394	56	10.792	67	2.070	17

Razor Blades

	1	2	3	4	5	6	7	8	9	10
2. Vidyut Metallics, Bombay.	90	4.1	124.490	13	162.326	17	0.602	4	6.828	57
3. Indo-Swing, Hyderabad.	250	12.0	106.890	11	126.831	13	2.545	17	0.896	8
4. Centron Ltd. Alliance, Bombay	100	4.8	21.500	2.5	31.128	3.3	0.180	1	0.625	5
5. National Razor Blades, Calcutta	100	4.8	30.650	3.5	36.640	3.7	1.212	7	0.571	5
6. Sharpedge, New Delhi.	60	2.9	67.8	5	74.290	7	0.664	4	0.984	8
	2100	100.0	984.36	100	956.609	100	15 .9 95	100	11.974	100
Share of 3 Mali	hotra G	roup Con	npanies:	•	.1	969		197	70	
In the Lic	In the Licensed capacity				. 8	37.5%		87	.5%	
In actual	produc	tion .				39%		86	%	
In exports	- I .	•	Z	25	N/2 5/5.	38%		82	%	

Note.—The above percentages have been worked out without taking into account the capacities of M/s. T.T. Blades who have been recently registered with the D.G.T.D. The details regarding the Company's sanctioned capacity etc. have been given earlier in this report.

The above statement will indicate that the share of 3 Malhotra Group Companies in 1969 and 1970 in the licensed capacity was 87.5% for both the years. Taking into view the actual production, their share was 89% and 86% respectively. As they are the major manufacturers, naturally their share in the exports is also high, namely, 88% to 82%

Projected Demand

Percentage of 3 to 2

52. Considering the companies presently engaged in the manufacture of safety razor blades registered with D.G.T.D. and those to whom letters of intent have been issued, the projected capacity for future will work out as under:—

सन्धर्मव जयते

								In	Million	Nos.
Existing units (including	60 milli	on No	s. of l	M/s. T	T. Blac	des)		•	2,160	
Parties to whom letters of	intent l	have l	been is	sued	•	•	•		1,760	
Pending applications	•	•	•	•	•	•	•	•	630 4, 550	

In a total capacity of 4,550 if the proposed expansion of M/s. Vidyut is also taken into consideration, the Malhotras share will work out to nearly 44% as below:—

1.	Total as above	4,550
2.	Extra capacity requested for by M/s. Vidyut Metallics	160
		4,710 Million Nos.
3.	Share of 3 Companies of Malhotra Group (taking into account the expanded capacity of M/s. Vidyut Metallics) (1500 + 250 + 250)	2,000 million Nos.

These figures will show that even after taking into account the projected demand (presuming that the 3 pending applications for 630 million capacity will also be sanctioned), the 3 'MALHOTRA' Companies will continue to be dominant producers in the field of safety razor blades.

Litigations relating to trade marks

- 53. M/s. Centron Industrial Alliance Pvt. Ltd. made a lot of allegations against Malhotras' Companies to the effect that these companies are engaging them in various types of litigation. The main allegation related to:—
 - (i) Use of Trade-mark "PERMASHARP"
 - (ii) Use of Trade-marks "JAWAN" and "SAHAKAR"
 - (iii) Use of Trade-marks "SWISH" and "SWING".

The Malhotra's companies were asked to indicate about these disputes and the position regarding these disputes as stated by them in as under:—

(i) Litigation Regarding Perma Sharp Trade Mark:

The applicant Company was never interested in this trade mark and never entered into any litigation regarding this. However, M/s. Harbans Lal Malhotta & Sons Pvt. Ltd. applied for registration of this trade mark in India. This trade mark was subsequently assigned to another group company, namely, M/S. Perma Sharp Razors Pvt. Ltd. Calcutta—another company of Malhotragroup. Mr. Dhanukar of 'CENTRON' also applied for registration of the same trade mark in class 8 which was opposed by M/s. Perma Sharp Razors Pvt. Ltd. The application of M/s. Perma Sharp Razors Pvt. Ltd. was accepted and that of Mr. Dhanukar rejected. When M/s. Perma Sharp Razor Pvt. Ltd., who won the case, advertised for this trade mark, a foreign company, namely, M/s. Perma Sharp of Scotland filed an opposition to this application of M/s. Perma Sharp Razors Pvt. Ltd. and the litigation between the Scotland company and Perma Sharp Razors of Malhotra is still reported to be pending in the Trade Marks Registry of Calcutta.

(ii) Litigation Regarding 'JAWAN' and 'SAHAKAR' Trade Marks

Here again, the applicant company does not come into picture. M/s. Harbans Lal Malhotra & Sons Pvt. Ltd. applied for trade mark 'JAWAN' for shaving brushes, which application is reported to have been accepted and advertised. Thereafter 'CENTRON' filed an opposition to this application. According to the company this opposition of 'CENTRON' has been dismissed by the Trade Marks Registry, Calcutta and against the said order of dismissal, an appeal before the Calcutta High Court has been filed by the 'CENTRON' which is reported to be pending.

M/s. Harbans Lal Malhotra & Sons Pvt. Ltd. filed an application for the registration of trade mark 'SAHAKAR' for shaving brushes and shaving soaps, etc. This application is also reported to have been accepted by the Trade Marks Registry and was advertised. Here again, Centron filed opposition. Centron's opposition is reported to have been rejected as far as shaving brushes are concerned. However, the opposition in respect of shaving soaps is still pending.

(iii) Litigation Regarding 'SWING' and 'SWISH' Trade Marks:

The applicant company is not directly concerned with this matter. M/s. Indo-Swing Pvt. Ltd., another group company, which was registered in 1961 is the registered owner of 'SWING' trade mark. 'SWING' is also a part of the name and title of the company 'INDO-SWING PVT.

When Indo-Swing Company applied for registration of 'SWING' trade mark for safety razors and some other items under clause 8, 'CENTRON' people filed opposition against the said applications. These are still pending before the Trade marks Registry.

54. Malhotra's representative informed the Commission that they have now amicably settled all their disputes with Centron Company and that draft agreements covering all the points of dispute between them and 'CENTRON' have been prepared and are expected to be executed shortly.

- 55. Copies of these draft agreements were given to the Commission during the course of preliminary hearing on the 10th February, 1972. These drafts were sent to the Centron Company for their comments. In reply, Centrol Company has stated as follows
 - "It is true that Malhotra's companies approached us for a compromise and settlement of various disputes referred to in our earlier communication to you. The drafts of the proposal settlement have been exchanged between us. They are subject to the concurrence of our collaborators in Scotland. It is hoped that our collaborators would agree and the settlement would eventually be reached. However, you will appreciate that we cannot at this stage, officially say that the said disputes are over until the documents relating to the settlement are executed and filed."
- 56. In view of the position explained, by the applicant Company and M/s. Centron and considering the fact that some of the disputes are 'SUBJUDICE', the Commission does not think it necessary to give its opinion on the various disputes complained of by M/s. Centron, more so when the two parties have decided to amicably settle their matters.
- 57. The points advocated by the applicant Company in its favour for getting the present licence for expansion are:—
- (i) To reach the present position in the blade industry, the Company had to fight hard against all difficulties from very humble beginnings. In the company's own words, "it is a story of Indian enterprise fighting, surviving and thriving against all difficulties starting from very humble beginning."
- (ii) Through its consistent efforts without any foreign collaboration, the Malhotra Group Companies have been able to break through in the market of Sudan, Lebanon, Singapore, Ethopia, Kenya and Nigeria. Even from markets like the U.K., the Company is having firm enquiries.
- (iii) Because of consistent in roads in the foreign markets, even the giants like Gillette, Wilkinson Sword Ltd. and M/s. Schick have been shaken and are now trying to enter into collaboration with Indian companies to beat the Malhotra Companies in the home and foreign markets.
- (iv) The Company's progress in foreign markets have been very very satisfactory. Even at present it is having orders worth Rs. 28 lakhs and hopes to get many more such orders in the near future.
- (v) The machineries used for by the Company have been entirely indigenous, designed and produced by the three Malhotra brothers. These companies by the persistent efforts have been able to achieve the following results which have been found very useful in the process of blade manufacturing:—
 - "(a) Perforating: Whereas previously we were working with hardened punches and soft dies made from Tool Steel which required servicing very often, now we are able to use Carbide tools which give far longer life and far better quality.
 - (b) Heat Treatment: Improvements here have been a virtual elimination of flaws like waviness, sweeps, inconsistent hardness to name just a few.
 - (c) Post Heat Treatment Core: It is always a danger that after heat treatment the blades tend to get rusty unless extreme care is taken. Chemical methods were evolved to stop the rusting.
 - (d) Name printing on Blades: Uptil previously the name was put on the blades by either etching by acid (which caused rust for one thing and gave an ugly finish for another) or alternatively a very slow and inaccurate type of equipment; the equipment has been modernized whereby a much better print is now available. Further work is going on in this direction.
 - (e) Edge generation: We are now getting a far better edge and controlling it to far finer limits than ever before by a conventional means which were previously done by hand.
 - (f) Chemical Edge treatment: Means Poly Tetra Flouro Ethylene coating of the edge and the systems concerned are being very progressively developed to finer and finer proportions all the times whereby we are getting a far better product."
- (vi) The Company's approach in the matter of labour relations has been very progressive. It has the highest paid labour force in its factories,

- (vii) The present request for expansion will only make the company a viable unit and will enable it to compete in the foreign markets.
- (viii) With the past experience in the razor blade manufacturing, the Company hopes to carry out further improvements and deliver better goods in the home and foreign markets.
- (ix) The Company's policy has not geen to charge high prices from the consumers. As a matter of fact, the blades manufactured by it are sold at very much lower prices as compared to the products of other competitors.
 - (x) It has never tried to exploit its monopoly position in the past in any manner.

Conclusion and Recommendations:

- 58. (i) The last date for the submission of the report (as extended) is 29th February, 1972. Our Colleague Dr. Paranjape during the course of the Commission's meeting disclosed that he was in favour of granting the application for expansion with certain conditions. The conditions which he proposes to impose relate to re-adjustment of capacities i.e., voluntary cutting of the sanctioned capacity of M/s. H.L. Malhotra & Sons Pvt. Ltd. at Calcutta by 500 million nos, or its transfer to Bombay company i.e.M/s. Vidyut Metallics. He also disclosed to us that it will not be possible for him to draft his separate report upto 29-2-1972 as the company had not submitted information on some of the points desired by him. He has indicated that his report will be submitted shortly, in any case, not latter than 11th March, 1972. Since our recommendations are going to be different from those of Dr. Paranjape and since we do not feel any necessity to extend the date any further, we are submitting our report along with our recommendations. Dr. Paranjape's recommendations will follow separately.
- (ii) The earlier discussion gives in brief the salient points relating to the application before the Commission, the inter-connected companies' capacities, etc. in the razor blade industry. Having carefully considered all the facts we are unable to recommend that the application for expansion of M/s. Vidyut Metallics from a licensed capacity of 90 million blades to 250 million blades should be allowed. Before we give our reasons for our conclusion, it may be well to start this part of the report with a reference to the Report of the Industrial Licensing Policy Inquiry Committee (popularly known as the Dutt Committee) of which Dr. Paranjape was one of the members. Here is what the Committee had to say of the history of the House of Malhotras:—
 - "4.47. Razor Blades—In the production of Razor Blades, while no Large House is involved, the MIC has pointed out that in 1964, one firm, H.L. Malhotra and Sons, controlled 84 per cent of the output. As a matter of fact, within the capacity licensed during the period of our study, concerns belonging to the Malhotra Group obtained about 86 per cent. There was a ban on new undertakings in the period between 1961 and 1966. The ban also applied between 1961 and 1964 to substantial expansion. Seven applications were rejected during this period, none of them belonging to Large Houses. The main reasons for rejections were no scope or ban in existence and high foreign exchange commitments proposed. At the same time, substantial expansions were licensed to the Malhotra Group in 1960, 1961 and 1965. This case indicates a disproportionate share being licensed not to a Large House but to one dominant producer. No special justification in favour of this producer is to be found."

(iii) How disproportionate was the share given to the Malhotras will be clear from the following Table which shows the licensed and installed capacities of the units including 3 units of the Harbans Lal Malhotra group which were in production in the year 1965:

N. C. D. I				Capacit	y			
Name of the Produc	Name of the Froducer							
(a) M/s. H.L. Malhotra & Sons, Calcutt (b) M/s. Vidyut Metallics, Bombay (c) M/s. Indo Swing Ltd., Hyderabad Other Parties	a.		•	1,500 90 250	1,000 90 250			
(d) National Razor Blades, Calcutta (e) M/s. Hind Razor Blades, Bombay (f) M/s. Orient Cosmetics, Madras		•		100 100 30	100 100 30			
				2070	1570			

- (iv) The licensed capacity of M/s. Harbans Lal Malhotra Group was 1840 millions out of a total of 2070 millions i.e. 88% in 1965. The figures given in the earlier part of this report will show that even in the year 1970, the share of the Companies of this Group in the total licensed capacity was 87.5%. It passes our comprehension how a party who has 87.5% of the licensed capacity in the whole country can have the temerity to apply for a further addition to its licensed capacity at Bombay of 160 millions, more so when the production in the sister interconnected companies has been far below the sanctioned capacities for these companies. We are amazed that our colleague has persuaded himself to recommend the company's application in 1972 when he did not find any justification for 'DISPROPORTIONATE SHARE' of the Malhotra Group in the year 1965 and the position has not materially changed since then.
- (v) The actual performance of the Group in the past years has been far from encouraging. Figures regarding capacity, production, etc. of these have been mentioned earlier in this report. However, for comparative study, these are reproduced below again:—

Nar	ne of the concern	Licensed	Insta-	A	ctual pro	duction	in millio	n blades	·
		capa- city	lled capa- city	1965	1966	1967	1968	1969	1970
1.	H. L. Malhotra & Sons, Cal	1500	1000	750.53	668.30	565.49	536.54	633.03	525.39
2.	Vidyut Metallics, Bombay	90	90	34.44	72.11	59.81	70.05	124.49	162.32
3.	Indo Swing, Hyderabad.	250	250	94.00	103.21	101.42	89.79	106.69	126.83

(Note:—Figures regarding production, etc. given in this Statement are those reported by the D.G.T.D.)

The above figures reveal two features:-

- (a) M/s. Harbans Lal Malhotra & Sons had achieved hardly 50% of the licensed capacity in the year 1965 and thereafter production started showing downward trends till it was just 35% in 1970.
- (b) M/s. Indo Swing also had produced just 50% of the licensed capacity in 1970.
- (vi) It was surprising that with an unutilised capacity of about 1000 million in Calcutta and 125 million in Hyderabad, the D.G.T.D should have remmended the application of M/s. Vidyut Metallics for an expansion from 90 million to 250 million. Therefore, a letter was addressed to the D.G.T.D. on 21st January, 1972 asking for more justification for the proposal. Relevant extracts from the letter are reproduced below:—

"Please refer to the correspondence resting with your U.O. letter No. CD/ID/12(7)-(71)-V1. III dated the 27th November, 1971 on the subject noted above. The details furnished show that for the year 1973-74, the total demand for blades is expected to be of the order of 2600 million blades. Futher, it has been observed from a note prepared by your office in the year 1968 that the present projected capacity of the existing units is 2154 million number per annum. It has been stated there that these units can achieve a total capacity of 3870 million per annum by working on double shift.

In view of this position, the Commission would like to know whether there is any particular justification to permit the applicant company to raise its production to 250 million number proposed, specially considering the fact that the Group to which it belongs has already got more than 90% share in the total production in this line of manufacture. It has also been observed from the information received from the Ministry of Industrial Development & Internal Trade that the licensed and installed capacities in the case of the two companies of the Group have not been reached even to the extent of 50%. The licensed capacity in the cases of Harbans Lal Malhotra & Sons Pvt. Ltd. and Indo Swing Pvt. Ltd.—two inter-connected companies of the Panama Pvt. Ltd.—had been 1500/250 million numbers. As against this, the production of these two companies had been 525/127 million nos. respectively, in the year 1970. The

Commission would, therefore, like to know your views whether it would not be more appropriate to insist that the existing concerns should reach their installed capacities rather than to sanction new capacities specially when the new applicant and the existing units are inter-connected undertakings.

The reply from the Ministry of Industrial Development shows that the production of an economically viable unit should be 250 million blades per annum on maximum utilisation basis. However, from the details furnished by the applicant company, it has been observed that the company has been reaping substantial profits even with a sanctioned capacity of 90 million number only. In view of this, perhaps there seems to be no justification to sanction the extra capacity on the ground that it will make the applicant an economically viable unit. Kindly give your detailed comments on this matter".

- (vii) Relevant extracts from the D.G.T.D.'s reply have already been reproduced in paragraph 15 earlier.
- (viii) Considerable stress has been laid before us, in written replies as also during the course of the public hearing that a capacity of 250 million nos, will make the applicant's unit an economically viable unit. While we scrutinised the proposal of the applicant company, we were not satisfied with this plea for the following reasons:—
 - (a) M/s. Vidyut Metallics itself had, with an installed capacity of 90 millions achieved a production of 124 millions in 1969 and 162.32 millions in 1970. The company has also earned good profits even with the existing licensed capacity.
 - (b) There are other units functioning successfully with less than 250 million capacity. For example-
 - (1) National Razor Blades, Calcutta. . . . 100 millions
 - (2) Hind Razor Blades (Centron Industrial Alliance Pvt. Ltd., Bombay) 100 millions
 - (3) M/s. Sharpedge Ltd. Okhla, Delhi. . . . 60 millions
 - (4) M/s. T.T. Blades, Bombay 60 millions
 - (c) Among the new units to which Letters of Intent have been issued recently, the following units have asked for smaller capacities, e.g.
 - (1) M/s. V. Balakrishna, Madurai 180 m. on 2 shift.
 - (2) M/s. Cosmo Steel Pvt. Ltd. Calcutta . . . 180 m. on 2 shift
 - (3) K.P. Agarwal, New Delhi 100 m.
 - (4) Ghaziabad Engg. Co. New Delhi 150 m.
 - (d) In the applications for establishing new units submitted by the following parites which are under consideration of the Ministry of Industrial Development lesser capacities have been asked for :—

 - (2) M/s. Precision Machinery Co. Pvt. Ltd., (with West German Technicians) 180 million
- (ix) In view of the reasons given above, we went into the question of viability in detail in the course of the public hearing and asked the representatives of the Company why they were not taking advantage of their idle capacity at Calcutta, particularly when they were negotiating for foreign collaboration with M/s. Willkinson Sword for the Calcutta unit. Shri V.P. Malhotra stated in the public hearing that the entire equipment of the Calcutta unit was in a state of disrepair and the plant had become obsolete. It was then pointed out to Shri Malhotra that the representatives of Wilkinsons must have actually visited the Calcutta plant and satisfied themselves about its capacity for producing high quality blades before they agreed for the collaboration. In reply Shri Malhotra stated that the Wilkinson people did visit his factory at Calcutta. He did not wish to be understood as saying that the Calcutta factory had to be condemned but it would take some two to three years to

reconstruct it. In the meanwhile, they wanted to make some progress at Bombay. If the expansion was allowed, the Bombay unit could export 135 million and sell 115 million in the local market. The representatives of the company were told that if they wanted to improve the quality of the product at Bombay, they should have asked for foreign collaboration for the Bombay unit and not the Calcutta unit. Shri R.K. Malhotra replied that they had applied for foreign collaboration for all the three units but the Government allowed it only for the Calcutta unit. After finalising the agreement, it was their intention to go again to the Government and ask for the extension of the collaboration to the Bombay unit also. The actual position in this matter has since been examined of Industrial Development. The company's letters dated the 16th August, 1971 and 17th November 1971 to the Ministry of Industrial Development show that the company's application was "a proposal for technical collaboration for the Calcutta factory". The Government of India (Ministry of Industrial Development) letter No. 5(28)/71. Con. Ind. dated 12th January, 1972 also allows foreign collaboration with Wilkinson Sword for the namufacture of stainless steel safety razor blades for an annual capacity of 500 million within the existing capacity licensed at their factory in West Bengal. Relevant extracts from the letter dated 16th August, 1970 and copies of the other two letters are annexed to our report (Annexures B, C & D). We have not come across any communication in the Ministry's file (nor the Company's representatives have filed any material before us) which may show that foreign collaboration with Wilkinson Sword of U.K. was applied for by all the 3 companies of the group. Hence it appears to us that the party's representatives have had no communication in making a false statement before the Commission in order to further its plan for expansion at Bombay.

- (x) In its letter dated the 9th February, 1972, the Ministry of Industrial Development have stated as below:—
 - "Messers Vidyut Metallics were originally given an industrial licence for the manufacture of 24 million nos. of safety razor blades. In 1962, they were given a licence for expansion of their capacity from 24 million nos. to 90 million nos. per annum, subject to the condition that the firm would export not less than 50% of the additional production.
 - On 18-11-1966, they applied for an expansion from 90 million nos. to 250 million nos. per annum This application was rejected on 9-8-1967 for the following reasons:—
 - (a) the capacity already licensed had not been achieved in full; and
 - (b) the condition regarding export of 50% of additional production had not been implemented.
 - They were, however, told in the Government letter rejecting their request that they could renew their application for expansion after the stipulated export had been effected and the manufacturing programme implemented in full.
 - On 19-5-1969, M/s. Vidyut Metallics again filed an application for expansion from 90 million nos. to 250 million nos. per annum. After the application was considered by the Licensing Committee, the Government asked M/s. Vidyut Metallics on 12-5-1970 to show cause, if any, why the application should not be rejected, as a substantial proportion of the capacity already licensed for the manufacture of razor blades was in favour of the group of which M/s. Vidyut Metallics belonged. After considering their reply, Government in their letter dated 3-7-1970 finally rejected the application; no other ground was mentioned in this letter of rejection.
 - On 20-1-1971, M/s. Vidyut Metallics again applied for expansion of their capacity from 90 million nos. to 250 million nos. per annum. In their application they had stated that they were prepared to export 50% of the expanded capacity by the next year and try their best to raise the export to 60% of their expanded capacity within a period of three years, and earn, out of their exports, more than sufficient foreign exchange to finance their raw materials requirements. The Ministry of Foreign Trade and the Ministry of Industrial Development both recommended the scheme as it was heavily export-oriented. The application was considered in the meeting of the Licensing Commttee held on 7-8-1971 but a decision was deferred, pending further consideration of the case in the Ministry of Industrial Development.
 - The present position, therefore, is that no decision has yet been taken on the application. The main reason which recommended the application to the Ministry of Industrial Development was the possibility of very substantial export within three years to the extent of 60% of the expanded capacity".

(xi) During the public hearing also, the representatives made much of the possibilities of export and stated that they had orders on hand for blades worth Rs. 28 lakhs. The records showed, however, that in the past they had not honoured their undertaking with regard to export. The figures regarding export commitments and actual exports have already been given in para 13. However, these are again mentioned below for ready reference:—

	Y	ear?					Ex	port commitment	Actual performance
	1967			•		•	•	17.90	2.20
	1968		•	•		•	• .	23.03	17.02
•	1969				•		• •	45.47	4.82
	1970			•		•		69.17	49.03
	1971					•		56.93	50.34

These figures were read out to the representatives and they were asked to explain how one could be sure that they would export 50% or 60% of the additional production of 160 millions now asked for. Shri R.K. Malhotra replied that in the past they did not have adequate raw materials but they hoped to get enough raw materials out of their export earnings in future. We cannot attach much importance to this statement. There are indications to show that the D.G.T.D. allowed the applicant campany to borrow steel strips from M/s. Harleans Lal Malhotra & Sons Pvt. Ltd. In 1969, it exported only 4.82 millions against the export commitment of 45.47 millions. This clearly shows that the past record of the company in honouring its commitment has been poor. Therefore, we are unable to support the application of the company on the ground that it is going to procure a lot of foreign exchange for the country. This is a promise which has not been fulfilled in the past.

- (xii) Mention may also be made in this connection of the representation made by M/s. Sharpedge Ltd. and about the difference pointed out between their export prices and export prices of Malhotras. While Malhotras export at Rs. 10/- to 12/- per 1000 blades, M/s. Sharpedge export at Rs. 40/- or 45/- per 1000. The price obtained by Malhotras, it appears, is hardly enough to cover the cost of raw materials.
- (xiii) Shri Oberoi representing Uttarkhand Blade Company Pvt. Ltd., Dehradun, submitted before the Commission that the applicant company belonged to a powerful group which has been dominating the market for the last 20 years. They had ample opportunities for their product in the export market, but their performance was not adequate. The application of M/s. Vidyut Metallics was mainly supported on the basis of export potential but the exports can be easily effected by raising the actual production in Calcutta within the existing capacity. In his opinion, the reference to labour troubles in Calcutta has no force. Labour troubles might crop up in Bombay or even in Hyderabad also any time. If an additional capacity was given to a monopolist, like the Harbans Lal Malhotra Group, it will be able to manipulate the prices and eliminate the small competitors. Therefore, his company was vigorously opposed to the application for expansion of M/s. Vidyut Metallics.
- (xiv) Shri Chopra, Advocate representing the Ghaziabad Engineering Company, New Delhi addressed the Commission and opposed the application of Vidyut Metallics for expansion. Besides the two grounds given in para 47 (iv) earlier, he also drew the Commission's attention to paragraph 4.47 of the 'ILPIC REPORT' (already reproduced earlier).
- (xv) We are unable to agree with the first contention of Shri Chopra. We have had occasion to use the new stainless steel blades produced under the name of Topaz and Panama and we must say that they are of fairly good quality.
- (xvi) The dominant position of Malhotra Group of Companies has already been discussed earlier. They have also been permitted foreign collaboration with Wilkinsons in respect of 500 million blades, vide Ministry of Industrial Development's letter dated 12-1-1972. There is provision in the arrangement for Harbans Lal Malhotra to sub-licence the 'knowhow' to other parties subject to a mutual agreement between Harbans Lal Malhotra and Wilkinsons. The financial position of the Malhotra Group is very good and they have the means required for installing new machinery at Calcutta for producing a better product with foreign collaboration. The company's paid up capital as on 31st March, 1971 was Rs. 36 lakhs. The reserves on this date amounted to Rs. 134.89 lakhs.

With their business experience acquired over the last 20 years, there is no doubt that the Malhotra Group would in due course extend the benefit of the foreign collaboration to the entire present licensed capacity of 1840 million nos. and produce a finer product which is acceptable in the export market. In other words, they have been the blade kings, for two decades and will remain so in future also inspite of the seven letters of intent recently issued by Government and the possibility of issuing letters of intent in the case of three more parties. In these circumstances, to allow the application for expansion of M/s. Vidyut Metallics Ltd. would be to make a mockery of the Monopolies & Restrictive Trade Practices Act and to place all the other units of blade manufacturers, existing and would be entrepreneurs, at the mercy of the House of Malhotras. We, therefore, recommend that this application should be rejected. We are unwilling to consider the application of the company favourably also for the reason that all the companies of the group are purely family concerns without any benefit of their activities being available to members of the public. Even in the case of concerns controlled by the Larger Industrial Houses, the shareholding of such large houses is small and the shares are widely held by the public and the public shares in the prosperity of the concern. This case is far worse.

- (xvii) During the course of the public hearing, our colleague Dr. Paranjape suggested that the capacity of Harbans Lal Malhotra at Calcutta should be reduced and the reduction should be transferred to Bombay so that there is no net increase in the installed capacity of the Group as a whole. The representatives of the company replied that they themselves had no objection but the Government of West Bengal would not agree to this. The representative of the Directorate General, Technical Development during the course of the public hearing stated that such transfer is not permissible under the Industries (Development and Regulation) Act, 1951. The earlier observations of the D.G.T.D. in this matter have already been reproduced earlier in this report (paragraph 15). We also feel reluctant to make such a suggestion at a time at which both the Government of India and the Government of West Bengal are making herculean efforts to resurrect the industrial life of West Bengal. The political and economic well being of West Bengal is a matter of concern to the whole country and we cannot subscribe to a suggestion which would only aggravate the labour problems of West Bengal. It is not as if the licensed capacity of the Group at Calcutta must be shifted out of West Bengal. If the particular area in which the factory is located is not conducive to production, there is nothing to prevent the Malhotras from choosing a better site within the Greater Calcutta area or even outside Calcutta but in West Bengal with the concurrence of the State Government.
- (xviii) Shri Chopra appearing on behalf of M/s. Ghaziabad Engineering Company was asked to give his views on the question relating to re-adjustment of capacity within the group on the lines suggested by our Colleague Dr. Paranjape. In brief, his submission was that in considering an application under Chapter III Section 21(3), the Government of India had to apply only the two tests laid down in section 21(3)(a), i.e. (i) concentration of economic power to the common detriment, (ii) prejudice to the public interest that may be caused by the granting of the application. When the same application is referred to the Commission for further enquiry, the Commission also is tied down to the above two criteria only. The party before the Commission is M/s. Vidyut Metallics Ltd. and even if M/s. Harbans Lal Malhotra & Sons Pvt. Ltd. concedes that it is inter-connected with the former, the proposition before the Commission is the expansion of the capacity of Vidyut Metallics and not the question of an *inter se* adjustment of capacities. Such an adjustment is permissible only when the Central Government contemplates a division of undertakings under Section 27 of the Act. Dr. Paranjape pointed out that the Central Government may lay down such conditions as it may think fit in according any approval under the Act and the proposed adjustment of capacity inter se two units of the same group would be covered by the power which is granted to the Central Government by Section 54 of the M.R.T.P. Act. Shri Chopra submitted that the conditions referred to must relate to the application which is pending before the Central Government, that is for expansion and the Section does not authorise the Central Government to order re-allocation of capacities which in effect means the rejection of the application for expansion. Shri Chopra argued that if a man asks for peas, he cannot be given gram and that cannot be said to be laying down a condition regarding the giving of peas. The two things are wholly different. It is not open to the Government to lay down such a condition nor for the Commission to recommend such a condition. We see considerable force in this argument, and consiare wholly different. der that our colleague's suggestion for a transfer of capacity from Calcutta to Bombay cannot be considered by the Commission when dealing with the question of expansion by M/s. Vidyut Metallics. For this reason also we are unable to agree with our colleague's suggestion.
- (xix) Before we conclude, we must point out to Government that there is a lot of confusion in the minds of Government agencies about licensed or installed capacities. Very often applicants claim before us that the capacity allotted already is on the basis of a single shift and that with two shifts they could double the production and with three shifts they could triple the production. To avoid

such confusion, we suggest that in future all licensed capacity should be expressed in terms of maximum utilisation of the plant and machinery.

(xx) Another matter which strikes us is that many parties make tall promises about export performance for the purpose of getting licenses on the ground of the schemes being export oriented. It appears that in many cases the promises are only made as a matter of form not meant to be honoured. In some cases, the percentage fixed for export is so large and the prices realised in the international market so low that one wonders whether in the process there is a net accretion of foreign exchange and whether the undertaking realises even the cost of imported components of the exported products. We suggest that Government should give serious thought to this aspect in its licensing orders. They should fix the percentage of export at a level which could be achieved in practice and take a bank or other guarantee from the party for the fulfilment of the export commitment. A special agency should be set up in the appropriate Department to watch from time to time the export performance of each and every industrialist who has undertaken a commitment in this regard.

(Sd.)

JUSTICE A. ALAGIRISWAMI

Chairman

(Sd.) Di SUBRAMANIAN *Member*

"I am preparing a separate Report. As the applicant company has not made certain factual information available in time, my separate Report will not be ready by the 29th instant. It will be submitted to Government shortly thereafter, and in any case not later than 11th March, 1972".

सत्यमेव जयते

(Sd.)

New Delhi, February 25, 1972.

H.K. PARANJAPE

Member

ANNEXURE A

(Figures in Rs. lakhs)

INAMES OF THE COMPANY	Status	Date of which last B/s. is available	Authorised Subscribed General capital capital Reserve	ubscribed Ge capital R		Cuner Reserve Ind. Dev. Rebate Reserve	Value of assets
(2)	(3)	(4)	(5)	(9)	(2)	(8)	(6)

6.35	.04 7.93	× 5.05	2.82 53.06	09.	x 17.74	14.60 403.50	.12 2.21	New Profit.	20.01	18.90
1.23	66.	.03	17.12	0.09	2.09	120.03	.21	N.	2.25	3.45
4.10	1.58	.23	10.50	.10	1.29	36.00	1.48	Capital employed as on 30-6-70		(2-70)
5.00	10.00	2.00	20.00	2.00	25.00	100.00	10.00	Capital er on 30-6-	5.80	5.07 (as on 31-12-70)
31-12-1970	31-3-1970	31-3-1971	30-6-1971	31-1-1970	31-12-1970	31-3-1971	30-6-1971		30-6-1970	31-12-1970
Pvt. Ltd. company.	Pvt. Ltd. company	Pvt. Ltd. company	Pvt. Ltd. company	Pvt. Ltd. company	Pvt. Ltd. company	Pvt. Ltd. company	Pvt. Ltd.	Company	Partnership concern	Partnership concern
M/s. Malhotra & Trading Co. (P) Ltd.	M/s. Navin Industrial Mercantile Co. Pvt. Ltd	M/s. Supermax Marketting & Services Pvt. Ltd.	M/s. Indo-Swing Pvt. Ltd	M/s. Perma Sharp Razor Pvt. Ltd	M/s. Malhotra Export House (P) Ltd.	M/s. H.L. Malhotra & Sons Pvt. Ltd.	M/s. Malhotra Spear Jackson Saws Mfg. Co.	rvi. Lid.	M/s. Bharat Marketting & Advertising Co	M/s. Raj Commercial Corporation
-i	2	က်	4.	က်	9	7.	8		6.	10.

Annexure B

Extracts taken from Letter No. IMP/4029/1442 dated 16th August, 1971 received from Harbans Lal Malhorta & Sons Pvt. Ltd., addressed to The Secretary, Ministry of Industrial Development, Internal Trade and Company Affairs, New Delhi.

We wish to place the following for your very kind perusal: We are manufacturing safety razor blades at 40, Belur Station Road, District Howrah, (West Bengal). This factory was established in 1950 and made phenomenal progress till 1967. In January, 1967 there were 812 people working in this factory. Their wage rate was one of the highest in West Bengal. Their sonuses were also considered to be one of the highest in the State. We enclose herewith a copy of our Agreements dated 5-11-64 and 20-5-66 (Marked 'A' and 'B') to substantiate this fact. The factory had become the largest unit for production of Razor Blades in Asia and was considered to be the second largest in the whole world, with an installed capacity of 1500 million Blades a year. This was the factory which produced the most economical Blade in the world (Bharat Blade) which today is popular not only all over India, but also all over Africa and Asia. At that time, we were exporting over 100 million Blades a year. This factory also developed by its own technology, the first stainless steel Blade produced in this country— The Ashok Stainless Blades. In the quality field also this factory developed the Fluoro Carbon coated Blue Prince Blade. Under our Company's Five Year Plan from 1966 to 1971, we had planned to raise our labour strength to 1500 people and enter the International Markets with a very big force. We would like to mention here that till 1967 during the 17 years of this factory's existence we neither had any strike nor a lock-out even for a day.

Our Belur Factory which was the backbone of our entire organization and has been built up with twenty years of hard labour by entirely Indian skill and Indian Technology was passing through a phase, which made working conditions impossible. Hence after the Bomb outrage on the Manager and a slow-down lasting nearly four months, we had no other alternative but to declare a closure on 25th January, 1971. Copy of Closure Note attached herewith (Marked 'G'). The Factory remained closed since then and has reopened on 9-8-1971 after nearly seven months of closure.

There are only two alternatives before us:

Either we modernise this plant so that continuity of employment is assured to the 750 people who are working there today and further employment opportunities created for the people of the locality.

स्यम्ब ज्यने OR We take the complacent attitude of letting the things drift along the way they have been doing for the past four years and produce sub-standard products which will mean a slow but sure death of the factory due to very strong competition arising from the other states.

It should be borne in mind that three of our main competitors, Messrs Hind Razors of Bombay, Messrs Hindustan Lever (Sharpedge of Delhi and Messrs Union Carbide all possess not only very strong financial backings but also have access to large reserves of technology due to their foreign collaborations and connections. Moreover, new Licenses have been issued recently for new factories. One of them issued to the U.P. Government envisages a capital expenditure of nearly Four Crores of Rupees and they are arranging foreign collaboration also. We can raise the Finance for modernisation but for technological assistance we have to rely upon other sources. We have been striving very hard to find a source which may be able to help us out of the extremely difficult technological situation that we are in and after great persuation and negotiations have managed to find such a source in Messrs Wilkinson Sword Limited, who are one of the most important Quality Blade Makers in the world.

This collaboration with Wilkinson will not only help us to revive our plant, create more employment opportunities in Belur (West Bengal) but would also help us once again to capture sizeable portion of the International Market. We have been trying to make an impact in the International Market for years but, unfortunately, every time we reach a certain stage, we are beaten back by the better research and development facilities which our international competitors—are able to command.

We would request you to kindly grant this application at the earliest as this will mean a great earning for our country. Firstly we will be able to earn considerable Foreign Exchange for the country by exporting our products. We can also later on export the know-how and set up factories abroad with Indian Equipment. We may mention here that we have already established one factory each in Kenya and Nigeria for the production of cheap carbon Steel Blades. But most of the countries are now looking for the know-how for Stainless Steel Blades. Secondly with the quality of our products coming at par with the International Standards the smuggling of Razor Blades into India which accounts for Crores of Rupees today will stop.

And last but not the least, this will save our Calcutta Blade Factory which has been all but destroyed due to no fault of ours or of the very vast majority of our workmen. It has been passing through a critical period due to circumstances which were absolutely beyond our control.

We would hence request that the Government help us in sorting out the technological problem by allowing this collaboration so that this potential employment nearly 1000 more people can be gradually put into effect. Upon receipt of your kind sanction, we would finalize the financial Agreement with Messrs Wilkinsons and put them upto yourself.

ANNEXURE C

Copy of the letter No. IMP/4029/344 dated 17-11-1971 from HARBANS LAL MALHOTRA & SONS PVT. LTD. addressed to Ministry of Industrial Development, New Delhi.

SUB: Our application for Technical Collaboration for the manufacture of Stainless Steel Razor Blades.

Further to our letter No. IMP/4029/2547 dated 11-11-1971, our proposal for technical collaboration for Calcutta factory may be considered on priority basis. Regarding Royalty to be paid on Stainless production of our sister concerns factories, we shall submit our applications separately.

Yours faithfullly, (Sd.) C.L. SHARMA

for Harbans Lal Malhotra & Sons Pvt. Ltd.

Annexure D No. 5(28)/71-Con. Ind.

GOVERNMENT OF INDIA

MINISTRY OF INDUSTRIAL DEVELOPMENT (AUDYOGIK VIKAS MANTRALAYA)

New Delhi, the 12th Jan. 1972

To

M/s. Harbans Lal Malhotra & Sons Pvt. Ltd., India House (5th Floor), Fort Street, Bombay-1.

Subject:—Proposal for foreign collaboration with M/s. Wilkinson Sword Ltd., U.K. for the manufacture of Stainless Steel Safety Razor Blades.

DEAR SIRS,

I am directed to refer to your letter No. IMP/4029/2547 dated the 15th November, 1971 on the subject noted above and to state that the Government of India are prepared to approve the terms of collaboration with M/s. Wilkinson Sword Ltd., Sword Works, South Field Road, London, W.4, U.K. for the manufacture of Stainless Steel Safety Razor Blades for an annual capacity of 500 Million Nos. (Five Hundred Million Nos.) within the existing capacity licensed at your factory situated in West Bengal on the following basis:—

(i) The foreign collaborator shall be paid a royalty @4% (Four Per cent) subject to Indian taxes, of the net ex-factory sale price of the product minus the landed cost of the imported components, irrespective of the source of procurement including ocean freight, insurance, custom duties, etc.

If a readily indentifiable component is made by the same Indian party in collaboration with another foreign party, on a royalty basis, the cost of such a component should be deducted from the ex-factory price of the final product for the purpose of computation of royalty. Similarly, if the same foreign collaborator is associated with the manufacture of the final product and also any of the identifiable components, even if the Indian partners are different, the cost of such components should also be offset from the value of the final product for the purpose of the computation of royalty.

No royalty shall be paid on the sale of Stainless Steel Razor Blades produced by your sister concerns similarly no royalty will be paid if the same know-how is passed on to the sister concerns.

- (ii) Payment of rayalty approved in (i) above shall be made out of the export earnings and no other form of foreign exchange remittance will be allowed by the Government.
- (iii) The Indian Company should be free to sub-licence the technical know-how/product design/engineering design under the agreement to another Indian Party, should it become necessary. The terms of such sub-licensing will, however be as mutually agreed to by all the parties concerned including the foreign collaborators and will be subject to the approval of Government.
- (iv) The deputation of foreign technicians, if any, either way shall be governed by specific approval to be granted by the Government on application in terms of numbers, period of asistance and training, rate of allowance to be paid, travelling charges and other terms of expenses, etc.
- (v) Import of capital equipment and raw materials would be allowed as per import policy, prevailing from time to time.
- (vi) Foreign brand names will not ordinarily be allowed for use on the products for internal sale although there is no objection to their use on products to be exported.
- (vii) Exports shall be permitted to all countries except where the foreign collaborator has existing licensing arrangements for manufacture.
- (viii) This approval is subject to the condition that you shall export the product to be manufactured equivalent to 25% of the ex-factory value of production per annum according to the phased manufacturing programme detailed in column 14 in Part B of your application over a period of five years. For this purpose the requisite guarantee i.e. legal undertaking/bank guarantee as may be required should be furnished. For this purpose you may contact the C.C.I. & E. (E.O. Cell) and the Ministry of Foreign Trade (TAE).

It may be noted that this export obligation is fixed without prejudice to the export condition stipulated in the substantial expansion licence granted to you.

(ix) The duration of the agreement shall be for a period of five years from the date of the agreement for five years from the date of commencement of production provided production is not delayed beyond three years of signing of agreement (i.e. a maximum period of eight years from the date of signing of the agreement).

Within this period, the Indian Company should develop and set up their own design and research facilities so that continued dependence upon the foreign collaborator beyond this period will not be necessary.

- (x) In case any consultancy is required to execute the project, this should be obtained from an Indian Consultancy Engineering firm. If foreign consultancy is considered unavoidable, an Indian consultancy firm should nevertheless be the prime consultants.
- (xi) The Indian Company should send three copies of a return about the progress of the undertaking as in the form enclosed showing the position as on 31st December each year. This return should be submitted by the 31st January of the following year. The annual returns should be sent till the date of the expiry of the foreign collaboration agreement, one copy be addressed to the authority which approved the foreign collaboration and the other copies being endorsed to the Ministry of Finance (Department of Economic Affairs) and the Foreign Collaboration Section of the Ministry of Industrial Development.
- (xii) The agreement shall be subject to Indian Laws.
- 2. In case the terms of collaboration are acceptable to you, an intimation in this regard may please be sent to this Ministry immediately. Ten copies of the collaboration agreement strictly in accordance with the terms indicated above, as finally executed, all of which should be duly signed by both the parties, may kindly be furnished to this Ministry.
- 3. This approval to the terms of collaboration is valid for a period of 6 months from the date of issue.

Yours faithfully,
(Sd.)
D.C.VAISH
Under Secretary to the Govt. of India.

MINORITY REPORT UNDER SECTION 21(3) (b) OF THE M.R.T.P.

ACT (LIV OF 1969) M/S.VIDYUT METALLICS

DR. H. K. PARANJAPE MEMBER

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INTRODUCTION

I am sorry that I cannot agree with my colleagues regarding the conclusion which they have drawn in this case and the recommendations made by them. This is so in spite of the fact that the arguments put forward by my colleagues are largely valid and make a strong case against the Applicant Company. There are certain arguments, especially the one regarding the large proportion of total capacity that the Applicant Company together with its interconnected undertakings controls, which are certainly of great importance in examining the case. At the same time, it is necessary, in my view, to look at certain other circumstances, especially those which affect the interests of the national economy. The general approach which I considered appropriate is that a positive rather than a negative attitude would be more apt in examining cases under Part A of Chapter III. This does not mean that the principal object, viz., to prevent further increase in, and if possible to reduce, the concentration of economic power or the existence of monopoly power, can be overlooked. What needs to be explored is whether, in one way or the other, with appropriate conditions, the proposal can be put through especially if it is technologically and economically a sound one.

2. It is my view that the powers given to the Central Government under Section 54 of the Monopolies and Restrictive Trade Practices Act of imposing "Such conditions, limitations or restrictions as it may think fit" are wide enough to permit such conditions to be imposed as would create countervailing circumstances of an adequate magnitute to enable the final proposal, and balance, not to prove to be one leading to common detriment. Not that this will be possible in the case of every proposal; but it is my view that it is the duty of the Commission to explore such a possibility so that the Applicant Company as well as the Government could explore whether such an alternative would be acceptable. If the Applicant Company refuses to accept conditions which, while helping the implementation of a techno-economically sould proposal, attempt to reduce the potentially or actually detrimental concentration of economic or monopoly power, then the responsibility for the porposal falling through will be squarely that of the applicant who will be seen to care more for the ownership and control and less for the technical and public interest considerations regarding the project.

Arguments against the Applicant

- 3. It is undoubtedly true that the Applicant Company together with its two other interconnected companies controls about 87 per cent of the licensed capacity in the razor-blades manufacturing industry and their share in actual production was also as large as 89 per cent (quantitywise) in 1969 and 86 per cent in 1970 (see Table in para 51 of the Majority Report).
- 4. It is also true that out of the three interconnected companies of the Malhotra group producing razor blades, two have not produced more than 50 per cent of their licensed capacity at any time. It is only the present Applicant Company which has in the past produced outputs much larger than the installed capacity. This failure on the part of the other two interconnected concerns is certainly of importance. In the case of Harbans Lal Malhotra and Sons (P) Limited, Calcutta, with a licensed capacity of 1,500 million pieces, the maximum production reached was in 1965 and that only about half of this licensed capacity; the production in subsequent years has been still lower. Admittedly, the lower production in the years from 1967 onwards is due to the disturbed conditions in West Bengal. This unit being located in a badly affected area, it was to some extent inevitable that its capacity could not be properly utilised. Regarding the other unt at Hyderabad the plea of the Applicant Group that increase in production there could not materialise because of shortage of raw materials is convincing. But the fact remains that about half the licensed capacity in these two units is still unutilised.
- 5. It may also appear that a further increase in the licensed capacity of one of the units of the Malhotra Group would lead to defeating the very purpose of licensing new capacity in this industry. As has been indicated in the Majority Report (para 50), the Government decided to create additional capacity in this industry even though the existing capacity was expected to be quite adequate to satisfy the expected domestic demand as well as the possibilities of export in terms of quantitites. This was done mainly for diluting the dominance of one group in the industry and encouraging new entrepreneurship. It may, therefore, be felt that permitting the proposed expansion would amount to defeating the very purpose for which additional capacity was being licensed in the industry.

- 6. The Applicant Company has pointed out that in view of the Letters of Intent that have been issued recently to a number of applicants and some applications already pending before Government, their share in licensed capacity would decline in future. As pointed out in the Majority Report (para 52), even if expanded capacity is permitted to the Applicant Company, the share of the Malhotra Group will work out to 44 per cent of the total licensed capacity if all the parties to whom Letters of Intent have been issued instal the capacities indicated to them and the applications presently pending are also granted. If the pending applications are ignored, the share of the Malhotra group would be 49 per cent. If the proposed application is not granted, the share of the Malhotra Group on the assumption made above would be 40 per cent instead of 44 per cent. It would, however, be quite unrealistic to ignore that many Letters of Intent may prove infructuous and not all the pending applications will be granted. The share of the Malhotra Group in the industry will continue to be predominant even if no further capacity is licensed to them. All that may be admitted is that an addition of 160 million pieces to the total licensed capacity would not make much difference in terms of proportion of the total capacity.
- 7. It should also be pointed out that many of the other producers in the industry both existing and those to whom Letters of Intent have been issued have opposed the grant of the application. One of the common objections of the opponents is that any increase in the capacity of a group which already dominates the industry to the present extent cannot but make the position of the competitors more difficult and precarious. Allegations were also levelled by Messrs Centron Industrial Alliance Private Limited and Messrs. Uttarkhand Blades Private Limited about unfair trade practices indulged in by the Malhotra Group. As the majority Report points out, the Applicant Company has been able to provide adequate explanations in the case of some of these allegations while in the case of some others, the matters are Sub-judice. Whatever that may be, there is no doubt that the Malhotra Group predominated over the Indian razor-blade manufacturing industry and any increase in their capacity cannot but be looked askance at by their competitors.

The Other Side

8. It appears to me, however, that certain major aspects of the development of this group have to be kept in view so as to look at the problem in perspective. This group was not the first to enter the industry. That distinction goes to Messrs. Hind Razor Blades Company Limited which was incorporated in 1949. That was also a family concern and the factory was located in Bombay. However, the concern did not make much headway technically or commercially in its earlier years. It is only recently that this company, reconstituted as Centron Industrial Alliance, is technically and otherwise making good progress.

Technical Contribution

- 9. Harbans Lal Malhotra & Sons began its manufacture of razor blades in 1960 in Calcutta. Its initial sanctioned capacity was 500 million blades which was increased to 1,000 million blades in 1960. This was further increased to 1500 million blades in 1965. The company established production of blades as pioneering venture without any foreign collaboration. This is one of its strong points. It should not be overlooked that the razor blades manufacturing industry is one of those industries in the world in which a great deal of secrecy is observed. Even machinery designs are not disclosed. The Malhotra Group had to undertake the difficult task that a pioneer in such circumstances has to undertake, viz., to secure the imported machinery somehow available in the initial stages, to improve upon it and to get further machinery manufactured in India. The Malhotra Group has done this significantly well in the case of its Bombay and Hyderabad units. It would be indicated from Table 1 that the value of the machinery indigenously procured by it comes to about 70 per cent of the gross value of machinery in its Hyderabad unit and about 82 per cent in the case of the Bombay unit of the Applicant Company. It is only in the original unit at Calcutta that the value of indigenous machinery is as low as 48 per cent.
- 10. While the companies have not been streamlined in their management organisation, separate R&D units have not existed and figures for expenditure on R&D are not easily available, the record regarding the increase in the use of indigenous machinery and the constant improvement in the quality of their products is itself an adequate proof of the genuine R&D effort made by the Group. In the Bombay unit, special efforts are being made in recent years to build up a team of technicians which would be constantly engaged in improving the processes and machinery. A tool room has been established for this purpose. All these efforts are in the right direction and must be

encouraged. The attainments of the Group by way of technical improvements, as claimed by the Applicant Company, have already been quoted in the Majority Report (para 57(v),*.

- 11. One of the other main difficulties focing the Indian industry in this field has been that the basic raw materials required for the industry, steel strips and grinder are not yet produced in India and the blade-manufactures have to depend ontirely on imports. With foreign exchange constraints that have faced the country for a long period, this itself has hod an adverse effect on the development of the industry whose capacity to produce has depended upon the extent to which it could procure import licences from the concerned authorities. To get over this difficulty, especially in view of the competition faced in the export market for carbon steel blades, the Group has taken np the production of cold rolled steel strips. The production has has also apparently been developed by Harbans Lal Malhotra and Sons without any foreign collaboration or technical assistance. Even though the process is still in the stage of development, is confined to carbon steel strips and satisfies only a small part of the demand for this raw material even of the Group companies, the point to be noted is that the Group has made a special effort to reduce its-and the country dependence on imported raw material A plant to produce wax paper required for packing the manufactured razor blades has also been set up by the Group in Calcutta, thus eliminating dependence on imported packing materials.
- 12. It is necessary to emphase these achievements of the Group which distinguish it from many other entrepreneurs either in the same industry of generally in the industrial world. As mentioned earlier, the only other producer who has been in the industry for long was not where near making any such genuine efforts towards self-reliance and technological improvement. It is only recently that M/s. Centron Industrial Alliance at its new location at Aurangabad has attempted to develop on similar lines and organised an efficient R&D unit and tool room, as a result of which it appears that it will also make a break-through in regard to technological improvement and competitive ability. The only other producer of importance in the industry in India, namely M/s. Sharpedge, is a subsidiary of Hindustan Lever which in turn is a subsidiary of Unilever a world gaint with various industries located all over the globe. M/s. Sharpedge have had the benefit of technical assistance from Gibbs a French subsidiary of Unilever in the blades manufacturing business. Even M/s. Centron have had the benefit of a foreign collaboration with M/s. Permasharp of U.K. It is only the Malhotra Group which had no such foreing collaboration till recently and still held its own, not only in the protected domestic market but even abroad.

Commendable Entrepreneurship

13. Another important point regarding this Group is that, in spite of achieving commercial and financial success, the Group has largely kept to its moorings and not diversified into unrelated lines of manufacture merely on the basis of finances controlled by it. The only other major line of manufacture that it has taken up is that of hacksaw blades, bandsaw blades and steel files. The Group is thus concentrating its energy on developing a certain specialised line of manufacture in India and is using its technical knowledge and experience as well as financial power for the purpose of further development in this narrow technical field. This is something that is specially commendable as

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^{* &}quot;(V) The Machinaries used by the Company have been entirely indigenous, desigenous, and produced by the three Malhotra brothers. These companies by the persistent efforts have been able to achieve the following results which have been found very usesul in the process of blade manufacturing:—

[&]quot;(a) Perforating: Whereas previously we were working with hardened punches and soft dies made from Tool Steel which required servicin. very often, now we are able to use Carbide Tools which give for longer life and far better quality.

⁽b) Heat Trestment: Improvements here have been made a virtual elimation of flaws like waviness sweeps, inconsistents hardness to name just a few.

⁽c) Post Heat Treatment Care: It is always a danger that after heat treatment the blades tend to get rusty unless extreme care is taken Chemical methods were evelved to stop the rusting.

⁽d) Name printing on Blades: Uptill previously the name was put on the blades by either etching by acid (which caused rust for one thing and gave an ugly finish for another) or alternatively a very slow and inaccurate type of equipments; the equipment has been modernized whereby a much better print is now available. Futher work is going on in this direction.

⁽e) Edgs generation: We are now getting a far better edge and controlling it to far finer limits than ever before by conventional means which were previously done by hand.

⁽f) Chemical Edge treatment: Means Boly Tetra Floura Ethylene coating of the edge and the systems concerned are being very progressively developed to finer and finer proportions all the time whereby we are getting a far better product."

compared to many entrepreneurs in India who have operated mainly as finance capitalists, going into various unrelated lines merely on the basis that they could command capital and perhaps also weild some influence. Only a few among them have taken care to develop indigenous technology, ensure genuine import substitution and develop an export market in competition with gaint producers from advanced countires. This group belongs to such a select category.

14. It should be also be noted that this Group has not been shown as using its monoply power against the interests of the consumer. An attempt was made by a lawyer who appeared before the Commission at its public hearing to question the quality of the products produced by the Malhotra Group. My colleagues have already given their opinion against this argument (see Majority Report, paragraph 58(xii). I agree with their view that the stainless steel blades produced by the Group are of fairly good quality. Moreover, the price data given in the enclosed tables 2 and 3 will show that the prices charged by the Group have not increased to any significant extent in recent years when prices of many manufactured articles have been rising up. The prices charged by the Malhotra Group also appear to be lower than prices of similar categories of products produced by other products. cers. It is obviously not possible for us to judge whether the price differences do not also indicate quality differences. The consumers would have their own preferences among products of different qualities and prices. What is clear from these data, however, is that, as compared to the competitors, the Malhotra Group has not exploited its monopoly position for jacking up prices charged to the consumers. That is not to say that the prices could not be lower. The profit margins of the Malhotra companies are quite high. They could thus have reduced prices still further without making their companies upprofitable. The higher prices charged for blades in India are obviously maintainable because of the complete prohibition of imports which gives the domestic manufacturers full protection. The only serious competition they face is from smuggled razor blades and these are naturally sold at comparatively high prices. The prices of smuggled blades, therefore, constitute a limit for determining the prices of domestically manufactured blades. It is obviously necessary to create more capacity and increased competition, if consumers are to obtain the product at lower prices. What is important in the present context, however, is that the Malhotra Group is not marketing its products at prices higher than its competitors; its prices are actually, in most respects, lower.

Export Performance

- 15. An important point made by my colleagues against the Applicant Company is that its export performance has not been upto its export commitments (para 58(xi) of the Majority Report). This is certainly true. At the same time, it should also be noted that the export commitment on its part was quite large, viz., 50 per cent of the additional production resulting from its expansion from 24 million pieces to 90 million pieces per annum. As the history of the expansion proposal of Messrs Sharpedge indicates, such a high export commitment is difficult to fulfil. At the same time, as indicated by the Ministry of Industrial Development to the Commission, as against the export commitment of 134 million blades for the two years 1969 and 1970, the Group as a whole exported 176 million blades during these two years. This was of course partly due to the export commitment of the Calcutta unit being nil because of its production not exceeding 1,000 million pieces at any time the export commitment being only for the production in excess of 1,000 million. It should be noted, however, that export as a percentage of total production has been as high as 13 per cent in the Malhotra Group (see table 4) as against about 2 or 3 per cent of Messrs. Sharpedge.
- 16. That the total export by the Malhotra Group constitutes the largest single proportion of the total exports of razor blades from India is of course only natural in view of the predominant share of total licensed rapacity that the Group enjoys. What is remarkable is that this has been done by a Group which does not belong to one of the-well established Larger Houses and thus does not enjoy large capital backing, had no foreign collaboration and was facing acute competition in world markets from giant producers as well as from Communist countries which do not mind exporting certain goods at uneconomic prices. How many Large House companies, or companies with major foreign collaborations. can show a comparable record?
- 17. In this connection, some other points need to be noted. India is potentially the largest single market for razor blades. Already her production of razor blades is one of the largest in the world. The possibility of increasing the exports of razor blades is bright because of the large home demand on which the industry can base itself. The potential of this export market is already indicated by the quantity of exports that the Malhotra group has been able to effect in the face of competition from world gaints such as Gillette and Wilkinson Sword. One of the main difficulties experienced by the Group has been regarding the supply of raw materials, especially steel strip which has to be imported. The Director ate General of Technical Development explained to the Commission that a policy has

been recently adopted under which the raw material allocation to each producer is increased by about 20 per cent every year so that production can steadily be increased. It is to be hoped that this and other measures of liberalisation would make it possible for the Indian blade manufacturers to expand them production and their exports rapidly.* This is specially important in the case of stainless steel blades because otherwise the smuggled imports of stainless steel blades would continue on a large scale.

- (18) It has been alleged by M/s. Sharpedge (see Majority Report, paragraph 58(xii) that the rate at which the Malhotra Group exports blades is so low that it hardly meet the cost of imported steel. This allegation being of some importance, we had this matter examined. Our examination (See Table 5) shows that this apprehension is not correct. There is a certain margin between the average export price and the average cost of steel strip in carbon steel blades. In stainless steel blades, the position is a little obscure because the data for value of steel imports could not be furnished by the applicant group for the years during which stainless steels blades have been exported. However, looking at the previous years' import prices, the export prices realised obviously provide a large margin. It should also be noted that the figures of import values are inclusive of import duty and such other elements.
- (19) The applicant Company also pointed out that they had to face ruthless competition regarding carbon steel blades from countries like Czeckoslovakia and China in various worldmarkets. According to the Applicant Company these countries appear to be able to export blades at very low prices, and maintaining a foothold in the markets in which these countries are dumping their products is quite a tough job. The uneconomic nature of using costly imported steel strip for effecting exports at very low rates was one factor which induced the Group to go in for the production of cold steel strip under its own auspices.

New Collaboration

- (20) The applicant Company has explained that sonsumers in the world market may be divided into the ultra sophisticated, sophisticated and economy minded categories. It has been pointed out that the consuming public especially in the foreign markets has been progressively switching towards sophisticated and ultra sophisticated blades. Competition in the economy minded category has been difficult to meet because very low prices are charged on exports by certain countries. The Malhotra Group's approach seems to be that it will incrasingly cater to meet the demands in the sophisticated as well as economy market categories in Indian and mainly the former in the export markets. It is from this point of view that a foreign collaboration agreement has been entered into between one of the Group Companies, $m_{\mathcal{L}}$, M/s. H.L. Malhotra and Sons, and M/s. Wilkinson Sword, a British manufacturer of great repute in this line of production. The justification for this has been given by the Applicants in the following words:
 - "Whereas in the past we have been able to make progress without any foreign collaboration, it has been an uphill journey all the way. Today research and development costs have been increasing very considerably and in future it may not be possible for us to make progress without aligning ourselves with an international organisation. We have negotiated a collaboration with M/s. Wilkinson but only on the understanding that royalty should be paid out of export earnings. There shall be no foreign equity participation. The association has been founded on the understanding that no restriction shall be placed on us as regards our export programmes to any part of the world, whereby we anticipate that we shall be able to place for India a reputable name in the world market".
- (21) This collaboration with Wilkinson Sword is in some ways a departure from the hitherto self-sufficient approach of the Group. But there seems to be some justification for it. As pointed out earlier, we have already had two concerns competing with the Group which enjoy foreign collaboration M/s. Centron Alliance with Perma Sharp of U.K. and M/s. Sharpedge (a subsidiary of Hindustan Lever) with Gibbs of France (a subsidary of Unilever). It also appears that two world giants in the field of razor blades are trying to enter the Indian Market itself. The Mysore State Industrial Development Corporation, which has received a letter of intent, has indicated that it is negotiating with M/s. Gillette for technical collaboration. M/s. Warner Hindustan subsidiary of M/s. Warner-Lambort of

^{*}In this respect the following observation, made in the Mid-term Appraisal of the Fourth Plan, is worth noting: "Among manufactured products, engineering goods, leather and leather manufactures, chemicals and allied products and handicrafts are expected to show sizable increases. India has made an inroad into world markets in the expects of a variety of engineering goods; and there is a substantial scope for extending exports of this group of commodities. It is assumed that the essential inputs required by engineering industries notably steel and non-ferrous metals would be made available, particularly for export production"—The Fourth Plan Mid-Term Appraisal, Volume I, para. 29, page 34, (December, 1971).

USA, has also applied for an industrial licence in this industry. It should be noted that M/s. Schick, another major manufacturer of razor blades in the world, is a subsidiary of Warner-Lambert. With these various attempts by major foreign producers of razor blades to enter the Indian market, it need not cause suprise that the Malhotra Group felt it necessary in the interest of self-preservation to have collaboration with a suitable foreign agency. Moreover, collaboration with Wilkinson Sword is likely to help the Group in developing export markets. As has been explained to us, Wilkinson Sword basically caters to the ultrasophisticated markets. The Malhotra Group, even in the past, has been able to produce stainless steel blades at a price much lower than those prevalent in the foriegn markets and therefore it has gradually built up an export business in this line. With collaboration from Wilkinson, it should be much more possible for it to increase its exports of quality blades to meet the demands of sophisticated consumers in the world market. With a large domstic demand base, this Group should thus be in a very good position to attempt the development of an export market in quality blades from India.

Why Expand in Bombay?

- (22) A question has been raised as to why the Group should ask for the expansion of its Bombay based unit when there is so much licensed but unutilised capacity available with the Group in Calcutta. It has also been alleged that the Group has preferred to have foreign collaboration agreement with Wilkinson Sword for its Calcutta Unit and not for the Bombay Unit. How then can it be claimed that the expansion of the Bombay Unit is necessary for enabling further export,* it has been asked
- (23) There is no basic reason why the Calcutta Unit cannot expand its production of stainless steel blades as a result of the collaboration with Wilkinson. But it is obvious that this will take time. The situation regarding industrial relations in West Bengal being what it is, normalisation of industry is bound to be slow. As the Group representatives have indicated to the Commission, much of the machinery in the Calcutta Unit has become old and will have to be replaced. While this will no doubt be done, it will take time. New machinery would also mean some significant changes in work norms, and working methods and organisation. This is also likely to require prolonged negotiations in Calcutta. It appears therefore that the possibility of increasing production of stainless steel blades in Bombay where the Group has a more modern unit and where it wants to effect substantial expansion is much brighter. Such expansion can be effected much more speedily then in Calcutta. The Bombay Unit is poised for growth and this growth is likely to help in significantly expanding the export potential regarding quality blades and stainless steel blades. This is an important argument in favour of the expansion of the unit in Bombay.

Optimum size

(24) It appears that for some years now it is believed by the D.G.T.D., the Planning Commission and other authorities that 250 million pieces per annum would be the minimum annual capacity for an economic unit in the razor blades industry. It is difficult to say how scientific this estimate is. It appears that some producers are finding a unit of 150 million pieces economical, at least to begin with, and the D.G.T.D. and the Ministry concerned have supported letters of intent for licensed capacities of this size to be established. At the same time, one cannot ignore the fact that sizes prevalent abroad are very much larger. If we want to create units in India which would effectively complete in foreign markets with world manufacturers of razor blades, it is essential that we should not insist on the maintenance of uneconomic sizes and hinder the growth of efficient units with good export potentialities. In any case, a unit with a capacity of 90 million pieces is obviously too small to be fully efficient. It has been said that the Bombay Unit has been making profits even with this capacity. This is no argument to suggest that it is efficient. In the fully protected market. (except for smuggling) that prevail in India, profits can be made through charging high prices.

^{*}Incidentally, there seems to have been some misunderstanding about the statement made on behalf of the Group that they wanted collaboration with all the three units but the Government allowed it only for the Calcutta Unit. Apparently, the position is that while the application for collaboration was on behalf of the Calcutta bases company, it was proposed that royalty was to be paid on the stainless steel blades production of all the three factories, as indicated in the letter from M/s. Harbans Lai Malhotra and Sons to the Ministry of Industrial Development, dated 17-11-1971 (see Annexure C of the Majority Report), It appears that Government has insisted that royalty can be paid only on the stainless production of Malhotra and Sons, and not on the stainless production of the other two concerns.

Profitability is thus no necessary indication of efficiency. Such hot house conditions would however not be available in the export markets. It would be necessary therefore to have a genuinely efficient basis of production. It has also been said that in any case the Bombay Unit has in the past been producing quantities much larger than its licensed capacity. Why then should extra capacity be sanctioned? This argument appears somewhat curious. For special reasons, the Government might have supported the production by the Unit of larger quantities as compared to its sanctioned capacity. It is however not much better that whatever capacity is considered appropriate is put on a proper statutory footing instead of leaving it to the discretion of the executive arm of Government?

(25) It is stated in the Majority Report that other units are functioning successfully with less than 250 million capacity (para. 58 viii(b)). As has been explained earlier, from the national point of view, profitability is not a necessary criterion of successful functioning. Of the four instances of existing firms with smaller capacity, only two can be said to be successful as can be seen from their financial results. (See Table 7). M/s. Sharpedge and, in recent years, M/s. Centron Industrial Alliance, are showing good financial results. But both these units mainly cater to a small strata of the society and the prices charged by them for certain categories of blades are very much higher than the prices charged by the Malhotra group of companies. The exports by these units have also been small so far. The entire question of a viable unit has to be seen in the light of reasonable domestic prices along with a cushion for effecting large exports.

Reorganisation of the capacity of the three units of the group

- (26) As against all these arguments, however, it is important to clearly keep in view the point emphasised in the Majority Report and quoted earlier, viz., that the Malhotra Group already controls a very large proportion of the total licensed capacity. Any addition to that capacity would therefore possibly aggrevate its dominance in the industry. The only way out of this position appears to be that the capacity of the Group as divided among the three units controlled by it should be rationalised so that its total dominance in the market does not increase; if possible, it should even be somewhat reduced; and, at the same time, its Bombay Unit should be permitted to be expanded to make it an economical and efficient one. To insist that because the group has a very large capacity in Calcutta, its Bombay Unit must always remain uneconomic and inefficient appears to me to be a counsel of despair. It is possible to argue that the Group should never have been permitted to acquire the Bombay Unit. Such acquisition might have attracted the provisions of the M.R.T.P. Act if the Act had existed at the time the acquisition took place. But now that it has got a Unit in Bombay, to insist that the Unit should always remain small and uneconomical would obviously be not only to penalise the staff employed in the Bombay factory but also to permit a waste of national resources. To reconcile these two conclusions, the only solution can be that the sanctioned capacity of the Group's Calcutta Unit is reduced and at the same time the capacity of the Bombay Unit is permitted to be expanded. I am aware that it may not be possible for the Central Government to enforce such a shift in capacity. However, it is not impossible for the Calcutta Unit of the Group to voluntarily surrender some capacity in fulfilment of a condition to that effect being imposed for being permitted to expand the capacity of its Bombay Unit.
- (27) Such a course of action may be objected to on the ground that this is really reducing the sanctioned capacity in one region for benefiting an expansion of capacity in another region. The argument becomes even stronger when the region which would suffer the alleged loss is West Bengal, a region which has had to suffer greatly in the last few years and whose industrial rehabilitation is a matter of high priority. What should not however be overlooked in this connection is that though the sanctioned capacity of the Calcutta Unit is as high as 1500 million pieces, there is no indication that the actual installed physical capacity of the Unit has ever been anywhere near that figure. The maximum production reached in the Calcutta Unit has been 750 million pieces. Representatives of the Group have admitted that the machinery in the Calcutta Unit has become old and worn out and needs considerable replacement. Unless this is done, it may not even be possible to reach the production of 750 million pieces. The implication of this is obviously that whatever be the reasons for sanctioning the extra capacity of 500 million for the Calcutta Unit in 1965, this extra capacity has probably never been really installed in the Unit. If therefore the Group decides to surrender a substantial part of its capacity in Calcutta, it would be no real loss either to production or to

employment in West Bengal*. At the same time, additional capacity to enable the Bombay Unit to attain the optimum size may be sanctioned so that production of that size can be rapidly reached and exports effected with the Bombay Unit as the base. What the Bombay Unit will gain will thus be in no real sense a loss to the Calcutta Unit and the change will be of net advantage to the national economy.

- (28) To rationalise this whole question of the capacity sanctioned to the Group, it would even be worthwhile to insist that the Malhotra Group surrender in Calcutta much larger capacity, say, three times the additionally sanctioned capacity, if it has to obtain an expansion of capacity in Bombay. Thus, if it is to be permitted to expand the capacity of its Bombay Unit from 90 million pieces to 250 million pieces, it should be ready to surrender in Calcutta a capacity of 480 million pieces or, to put it in round terms, it should be content with a capacity of 1,000 million pieces in Calcutta. Such a course will serve both purposes adequately. It will expand the Bombay Unit to an economic size; and at the same time not only not increase but actually reduce to some extent the degree of dominance that the Malhotra Group enjoys at present in the razor blades industry. This should thus help reduce an earlier mistake of undue sanction of capacity to the Malhotra Group as pointed out by the Dutt Committee (See Para 58(ii) of the Majority Report).
- (29) As mentioned in the Majority Report (paragraph 58 (XVIII), a lawyer who appeared at the public hearing expressed the view that it is not open to the Central Government under Section 54 of the Monopolies and Restrictive Trade Practices Act to impose conditions regarding an interconnected company. He argued that conditions could be imposed only regarding the Applicant Company. My Colleagues "see considerable force in this argument, and consider that (my) suggestion for a transfer of capacity from Calcutta to Bombay cannot be considered by the Commission when dealing with the question of expansion by Messrs. Vidyut Metallics." As against this, I take the view that the Government's powers regarding imposing conditions under section 54 of the act are very wide and that they extend not only to the applicant undertaking but to undertakings—which are interconnected with the applicant undertaking especially when as in this case the undertakings are fully under the control of the same group of persons. It is thus my contention that it is practicable for Government to impose such a condition and that therefore it is quite appropriate for me to recommend it for Government's consideration.

Exports—An important consideration

(30) One other point in justification of the approach that I am suggesting is that such an approach would ensure that the advantage in the export market that the Applicant Company has secured and which is likely to be enhanced as a result of the collaboration secured by the other company in the group with Wilkinson Sword will be maintained and competitive strength in the export market further built up. If the Group is to depend only on the Calcutta unit for building up further export potential, what with some inevitable lapse of time in the conditions in the Calcutta unit returns ing to normal, its machinery being modernised and other improvements taking place, there would be an inevitable gap of time in which the advantage secured by the Group in the foreign markets may not be sustained. This will be a national loss and should be avoided. Secondly, if the Applicant Company keeps to its Commitment that 60 per cent of the enhanced capacity will be used for meeting export demand, the additional production that would be put on the domestic market would be only 58 million pieces which is not a significantly large proportion of the total output. It appears to me that the possibilitites of export of the stainless steel blades produced by this company are likely to be brighter in the future than in the past. No one of course can be perfectly certain that the exports promised would take place. The only care that has to be taken in this context is that the company should be prohibited from putting more than the stipulated proportion of output on the domestic market. Any shortfall in exports should not therefore be permitted to add to the competition offered by them in the domestic market to the other smaller producers. This condition would ensure that the impact of this expansion on the competing producers would not be significantly adverse. One possible advantage if exports materialise on the lines envisaged by the Applicant Company would be that there would be not foreign exchange receipts. The Company's export record in the

^{*}My colleagues have suggested (Majority Report-para 58 (xvii) that there is no reason why, even if there are difficulties for expending capacity on the present location, the additional capacity cannot be created at another location in Calcutta itself, or elsewhere in West Bengal. This may certainly be possible. The point of practical importance, however, is that priority should always be given to making an un conomic unit economic in size; the setting up of a new unit or expending an already large unit which is much larger than the optimum economic size can only be thought or as second in importance.

past, though not as good as one would have liked it to be, is still good enough to suggest that there is good possibility of achieving this result. This view of mine appears to be shared by the DGTD and the Ministry of Industrial Development.

Reducing the Control Exercised by the Malhotra Family

(31) An important objection raised to the dominating position of the Malhotra group, and therefore to the proposed expansion proposal of the Applicant Company, is that it is entirely a family concern and that the benefits raising out of further expansion will not be directly shared by the community at large. It should be noted in this connection that the razor blade manufacturing industry appears to be one of those which, because of the secretive nature of the technical processes involved, has for long been controlled by particular families. It appears that this was the case with Wilkinson Sword and also with Schick. It is only recently that the later has become a subsidiary of Warner-Lambert. It has already been pointed out by me earlier that the Malhotra family has undoubtedly made valuable contributions to the indigenisation of technology and its improvement, and to building up local machinery. At the same time, whatever the contribution the family has made and will continue to make, it is necessary that a dominent producing group like this should not continue to remain purely a family concern, without any public participation and without any resulting supervision by the public or by public financial institutions in the operation and working of the Group's Companies. The Scheme of Finance proposed by the Applicant Company should therefore be modified for the purpose of ensuring that the Malhotra family's control at least over the Applicant Company if not over the Group as a whole is diluted.

Scheme of Finance

(32) Vidyut Metallics—the applicant company is owned by Panama Private Limited. The company has a small paid up capital of Rs. 4.45 lakhs and large profits have been earned on this small capital base (See Table 6). Large reserves have also been built up and in recent years dividends have been kept low so as to provide finance for further expansion. For the proposed expansion, the Scheme of Finance proposed by the Applicant is as follows:—

(a) Expenditure: 15.00 lakhs Rs. Capital expenditure Rs. 25.72 lakhs Additional working Capital Rs. 40.72 lakhs Total (b) Source of Finance Share Capital Borrowings from Banks Rs. 9.90 lakhs Rs. 10.60 lakhs Depreciation Rs. 1.50 lakhs Development Rebate Reserve 18.72 lakhs Rs. Retained surpluses Rs. 40.72 alkhs Total

- (33) For the reasons mentioned earlier, and also to ensure a more balanced capital structure for the Company, the Scheme of Finance should be modified. The modification should be so carried out that the Applicant Company can be converted into a public limited Company. It may be necessary when doing this to capitalise at least a certain part of the large reserves built up by the company so as to enable a part of the benefit from surpluses accumulated in the past to be retained by the presently controlling individuals. This may be done by making the existing 49,000 (Rs. 3/-) partly paid-up equity shares into fully paid ones (of Rs. 10/- each). This will raise the amount of paid-up capital to Rs. 7.88 lakhs. After doing this, the Company should be converted into a Public Limited Company.
- (34) Out of the Rs. 15 lakhs required for capital expenditure under the expansion scheme, Rs. 4 lakhs may be obtained by way of medium-term loans and Rs. 11 lakhs by way of the issue of fresh equity. Out of this fresh issue, Rs. 3.94 lakhs worth of equity capital may be issued as rights thares to existing shareholders in the ratio of one new share for two old shares held. This will ensure that the present shareholders, i.e., the Malhotra family, would continue to retain control over the Company so as to maintain continuity of management and ensure the success of the expansion

scheme. Out of the balance of Rs. 7.06 lakhs to be issued to the public other than the existing shareholders, shares worth Rs. 1.06 lakhs should be offered in priority to a public financial institution, preferably one under the State Government in whose territory the concerned undertaking is located. To ensure that the control exercised by the Malhotra family over the Company is genuinely diluted, such an offer to a public financial institution is essential. The necessary resolution under Section 81 of the Companies Act may be passed so as to enable equity worth Rs. 7.06 lakhs to be offered to persons other than the existing shareholders. This can obviously be done only after the Company has been converted into a public limited company.

(35) It will be observed that as a result of the modifications suggested in the Scheme, it relies much less on retained surpluses for meeting the capital expenditure as compared to the original proposal. This is partly because, when the Company goes public, the dividend distribution would be on a larger capital base. It is also not appropriate that very high profitability should be assumed for the purpose of the Scheme of Finance. The other elements such as borrowings from banks, depreciation and development rebate reserve remain the same. The following table would indicate the modified Scheme of Finance:

Sources of Finance								(Rs. lakhs)
Fresh issue of share capital						•		11.00
Medium-term loans .								4.00
Borrowings from Banks								9.90
Depreciation provision								10.60
Development Rebate		Fine	3					1.50
Retained surpluses .	25			3	•	•	•	3.72
				330		Total		40.72

(36) Such a revised Scheme would achieve the twin objectives of (i) ensuring genuine participation of the public including, if possible, public financial institutions, in the prosperity of the company which at present is benfiting only the Malhotra family and (ii) the financing of the capital cost by a fresh issue of capital and medium term loans. Representatives of the Malhotra Group indicated at the public hearing that they are working on a scheme of rationalising the structure of the different companies owned by them. They also indicated that they are thinking of introducing some scheme by which their employees would become shareholders and also be represented on the Board of Directors. As no details of such proposals have been made available to the Commission, it is not possible to give any opinion about them. If there is a proposal for genuine employee participation in equity capital and therefore in the Board of Directors, it should be welcomed. But this cannot take the place of making the company a public limited company and ensuring some genuine outside participation, at least apart of it by public financial institutions. Any alternative proposal put forward by the Group must satisfy these criteria.

Recommendation

- (37) To recapitulate, it is my view that the fact that the company was granted in the past an undoubtedly over large capacity especially for its Calcutta unit should not come in the way of the Applicant Company's efforts to rationalise the size of its Bombay unit. Preventing such an effort would merely perpetuate the maintenance of a not very efficient unit in the country. It is also likely to retard the development of exports for which the prospects appear to be good.
- (38) At the same time, there are genuine and valid objections to a further increase in the licensed capacity of the Malhotra group. This opportunity should therefore be taken to rationalise the position. This objective can be achieved by imposing the following conditions regarding the approval of the proposal:
 - (1) The interconnected company of the Applicant Company, namely M/s. H.L. Malhotra and Sons, should surrender a capacity of 500 million pieces out of the 1500 million pieces sanctioned to it.
 - (2) Vidyut Metallics should take effective steps to become a public limited company and fresh equity to the extent of Rs. 7.06 lakhs should be issued to the public, i.e. excluding existing shareholders Equity to the extent of Rs. 1.06 lakhs out of this should be made available preferentially to a public financial institution.

(3) As indicated by the Applicant Company itself, out of the enhanced capacity, 60 per cent output should be exported, in any case not more than 40 percent of the output from the enhanced capacity should be permitted to be sold within the country.

Concluding Remarks

- (39) My colleagues have expressed amazement that I have persuaded myself to recommend the Company's application in 1972 when I did not find any justification for the disproportionate share of the Malhotra Group in the year 1965 and the position has not materially changed since then. They are referring to the conclusion of the Industrial Licensing Policy Inquiry Committee (Dutt Committee) which has been quoted by them. I was a Member of the Committee. A careful reading of my present Report will indicate that there is little cause for such 'amazement'. The position taken by me now in no way contradicts the position taken by the Dutt Committee. Licensing such a large capacity to one unit in Calcutta and to permit one Group to secure as much as 87% of the licensed capacity was unjustified and should not have been done. What I am suggesting is in keeping with this view and at the same time takes note of the requirements of the position as exists now. In my view, the package as suggested by me would best satisfy the criteria laid down in Section 28 of the M.R.T.P. Act and specially the following (emphasis added):
- (a) to achieve the production, supply and distribution, by most efficient and economical means, of goods of such types and qualities, in such volume and at such prices as will best meet the requirements of......home and overseas markets;
 - (b) to have the trade organised in such a way that its efficiency is progressively increased;
 - (c) to ensure the best use and distribution of men, materials and industrial capacity in India;
- (d) to effect technical and technological improvements in trade and expansion of existing markets and the opening up of new markets; and
- (e) to encourage new enterprises as a countervailing force to the concentration of economic power to the common detriment.
- (40) As I have explained earlier in this Report, it is my view that the Government must encourage entrepreneurs of the type represented by the Applicant Company, who have lifted themselves by their bootstraps, so to say, who have attempted genuinely to develop indigenous technology and enterprise, and who have functioned more as technical and professional entrepreneurs rather than as finance capitalists. The Malhotra Group is not a large one; the total assets of all the interconnected companies including the Applicant Company amount only to Rs. 6.03 crores and it is nowhere near becoming a Larger House. This is one of the few cases in which my colleagues have recommended an outright rejection on the ground that "to allow the application...... would be to make a mockery of the Monopolies and Restrictive Trade Practices Act and to place all the other units of blade manufacturers, existing and would be entrepreneurs at the mercy of the House of Malhotras" (para-58-xvi). I do not agree, though our differences of opinion in the cases of Larger Houses like Tata Engineering and Locomotive Company, Century Spinning and TVS were of a different kind. My approach has all along been that the Government must use Section 54 wherever necessary to suggest countervailing changes to make the final package, on balance, one which would be of public advantage and which would not be to the common detriment.
- (41) I should add that in the conduct of the inquiry we received all the cooperation necessary from the Applicant Company and also from its interconnected companies. We also had very useful materials submitted to us by a number of competing companies and my own visit to the factory of M/s. Centron proved to be of much use and interest. I should also add that Shri T.N. Pandey, Deputy Secretary of the Commission, assisted on the Research side by Shri S.B. Mathur, Shri N.K. Chandekar and Shri R. D. Saxena, rendered valuable assistance in the conduct of the inquiry.

(Sd.)

H.K. PARANJAPE

Member

Monopolies and Restrictive Trade Practices

Commission

TABLE 1

Value of imported and indigeneous machinery—Malhotra Group of Companies

(Rs. lakhs) Written Gross down value value HLM & Sons Pvt. Ltd. 1. Value of Machinery 38.74 111.88 (as on 31st March 1971) (100.0)2. Imported machinery: 2.1 CIF Value (approx.) 47.80 (42.7)2.2. Including duty & other expenses 58.78 19.23 (52.5)3. Indigenous machinery 53.10 19.51 (47.5)Indo Swing Pvt. Limited 1. Value of machinery 17.78 9.43 (as on 30th June, 1970) (100.0)2. Imported machinery: 2.1 CIF Value (approx.) 4.69 (26.4)2.2. Including duty and other expenses 5.35 1.12 (30.1)3. Indigenous machinery 12.43 8.31 (69.9)Vidyut Metallics 1. Value of machinery 17.61 29.78 (as on 30th September 1970) (100.0)2. Imported machinery 2.1. CIF Value (approx.) 2.88 (9.7)2.2. Including duty & other expenses 5.24 3.46 (17.6)3. Indigenous machinery 24.54* 14.15 (82.4)

NOTE.—Figures in brackets indicate percentages to total.

^{*}Including Rs. 2 69 lakhs paid to the party from whom original plant and Machinery was purchased.

Source: - The Applicant Company.

TABLE 2

Ex-factory and suggested consumer prices of some brands of razor blades manufactured by Malhotra group of companies

(Rs./100 blades)

	Brand	1967 Ex- factory	Con- sumer	1968 Ex- factory	Con-sumer	1969 Ex- factory	Con-sumer	1970 Ex- factory	Con- sumer	1971 Ex- factory	Con- sumer	% increase 1967—71 Ex- C factory su	Se Con- sumer
	Bharat	3.50	4.90	3.50	4.90	3.50	4.90	3.50	5.00	3.50	5.00	;	2.0
	Рапата	4.05	5.40	4.05	5.40	4.05	5.40	4.05	5.50	4.05	5.50	:	1.9
	Prince Blue	7.55	10.90	7.55	10.90	7.55	10.90	7.55	10.90	7.55	10.90	:	:
	Ashok Stainless	8.35	12.00	8.35	12.00	8.35	12,00	9.25 + 14.00	14.00	9.25	14.00	10.8	16.7
	Panama Stainless	NA	13.00	8.35	13.00	9.50	14.20	10.00	16.00	10.00	16.00	19.8	23.1
	Silver Prince	20.00	29.00	20.00	29.00	20.00	29.00	15.00	31.40	15.00	23.40	-25.0	-19.3
٠	Zorrik Stainless							00.09	94.33	33.00	51.67		
			-										

Nors:—Consumer prices are inclusive of excise duty, levied during 1970 on stainless steel blades, and Central Sales tax in technisive of local taxes and octroi,

⁺ December 1970

Source :- The Applicant Company.

TABLE 3

Prices of Razor Blades charged by Malhotra Group and some other companies

										Trade Price Rs./per 100	Consumer Price Rs./per piece
Carbon steel, uncoated											
Malhotra Group											
Bharat						•				4.00	0.05
Panama		. •	•	•	•		•	•	•	4.57	0.055
Carbon Steel, coated											
Malhotra Group										٠	
Bharat Silikone		•	. ,	n. F.	To lear	3.				6.48	0.08
Panama Silikone		•	6			8			•	6.84	0.085
Prince Blue	•	•	. (â.,	9.	•	•		9.27	0.11
Other Companies				Wi					٠		
Alert			- 1	盐	E.A.	b.				11.00	0.14*
Erasmic .		•	- {		951	5)				13.00	0.16*
Stainless Steel				सन्धमे	व जय	ते					
Malhotra Group											
Ashok .	•	•	•			•.	•			10.25	0.14
Panama .	•			•	•		•			12.00	0.16
Silver Prince		•	•	•			•	•		17.85	0.23
Zorrik	•	•		•	•	•	•			39.00	0.52
Other Companies											
Swish			•			•	•			24.25	0.31
Super Swish	•		•			•		•		37.90	0.50
UCAR	•	•	•	•	•.	•				27.25	0.33
Morning Star .	÷			•		•			•	20.00	0.26
Pltinex		•	•			•				52.00	0.75

^{*}M/s. Sharpedge Limited the manufacturers, report the retail prices as 0.13 and 0.15 respectively. Source:—The Aplicant Company.

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TABLE 4

Quantity and Value of Exports of razor blades by major units

(i) Quantity					(million	numbers
	1967	1968	1969	1970	1971	
I. Malhotra Group Production			a [*]			
1. H.L. Malhotra & Sons	. 565.52	536.54	600.26	5 25.40	276.99	
2. Indo Swing	. 101.43	89.79	106.89	126.83	125.02	
3. Vidyut Metallics	. 59.80	70.06	114.93	162.33	137.86	
4. Total	. 726.75	696.39	822.08	814.56	539.87	
Exports :						
1. H.L. Malhotra & Sons	. 53.40	84.80	82.50	16.80	7.35	
2. Indo Swing	. 5.90	1.50	19.17	5.65	15.72	
3. Vidyut Metallics	. 2.20	17.02	4.80	49.03	50.34	
4. Total	. 61.50	103.32	106.47	71.48	73.41	
Exports as a % of production	1	441	37			
1. H.L. Malhotra & Sons	. 9.4	15.8	13.7	3.2	2.6	
2. Indo Swing	. 5.8	1.7	1.8	4.4	12.6	
3. Vidyut Metallics	. 3.7	24.3	4.2	30.2	36.5	
4. Total	. 8.5	14.8	13.0	8.8	13.6	
II. M/S. Sharpedge Limited						
Production	. 33.6	51.2	67.8	74.3	75.2	
Exports	. · NA	NA	1.44	2.22	1.50	
Exports as a % of Production%	. NA	NA	2.1	3.0	2.0	
III. M s. National Razors & Blades:						
Production	. NA	21.92	29.81	38.32	NA	
Exports	. NA	0.12	10.85	4.25	NA	
Exports as a % of Production% .	. NA	0.5	36.4	11.1	NA	

^{**}Data relate to financial years.

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TABLE 4—Contd.

(ii) Value			·			(Rs. 000)
• :	1966-67	1967-68	1968—69	196970	197071	1971
I. Malhotra Group:						
Total Sales						
1. HLM & Sons .	22,214	23,681	23,696	24,865	27,696	
2. Indo Swing .	3,826	4,254	4,554	3,761	6,594	
3. Vidyut Met	3,219	4,634	5,995	8,739	10,591	
4. Total	25,259	32,569	34,245	37,365	44,881	
Exports (FOB)						
1. HLM & Sons .	859	776	1,532	849	140	
2. Indo Swing .	88	22	230	74	223	
3. Vidyut Met	6	25	240	357	445	
4. Total	953	823	2,002	1,280	808	
Exports as a % of Total Sales %	1		7			
1. HLM & Sons .	3.9	3.3	6.5	3.4	0.04	
2. Indo Swing	2.3	0.5	5.1	1.7	3.4	
3. Vidyut Met	0.2	0.5	4.0	4.1	4.2	
4. Total	3.3	2.5	5.8	3.4	1.8	
I. M/s. Sharpedge Limited**						
Total Sales				7,910	8,840	9,480
Exports				66	99	67
Exports as a % of Total Sales %				0.8	1.1	0.7
II. M s. National Razors & Blades:					,	
Total Sales			682	649	865	
Exports			3	146	58	
Exports as a % of Total sales %			0.4	22.5	6.7	

^{**}Figures relate to calendar years.

Source:—The above mentioned Companies.

TABLE 5

Average export price realised and import of steel strips for manufacture of razor blades

						Average export	Value* per 10	of stee blades (R	imports
	t					price Rs./100 blades	Carbon	Coated carbon	Stainles
HLM & Sons Pvt. Ltd.									
1967/1967-68		•	•	•	•	1.18	1.10	0.99	2.66
1968/1968-69		•		•	•	1.21	0.96	1.20	2.57
1969/1969-70	•	•	•	•	•	1.31	0.94	1.16	2.95
1970/1970-71	•		•	•	•	1.34	NA		
1971/1971-72	•		•	•	. •	1.31	NA		
Indo-Swing Pvt. Limited	*		-	5		22			
1967/1967-68		. •				1.49	0.97	.• •	
1968/1968-69			•			1.47	0.82	• •	• •
1969/1969-70		•		T)	THE	1.33	0.73		• *•
1970/1970-71	•		•	di	4 111	1.35	0.97	••	2.72
1971/1971-72	•	•	·		(07)	1.33	NA	• •	• •
Vidyut Metallics				सद्य	मेव ज	पते			
1967/1967-68				•	•	1.04	1.32	1.32	••
1968/1968-69			•	•	•	1.20	0.75	1.10	2.72
1969/1969-70	•	•	•		. •	1.25	0.59	1.04	2.98
1970/1970-71									
Carbon		•	•	•	•	1.33	NA		
Stainless Stee	el .	•	•	•	•	13.33			
1971/1971-72									
Carbon	•	•	•	•		1.51	NA		
Stainless stee	ı.			•	•	7.76			

Note.-1. Figures of export prices relate to calendar years and imports relate to financial years.

Source: - The Applicant Company.

^{2.} For exports mainly carbon and stainless steel are utilised.

^{3.} Exports of Stainless Steel blades commenced only from 1970.

^{4.} Inclusive of import duty and other expenses.

TABLE 6

Profitability ratios of the Malhotra Group of Companies

(i) M/s. Vidyut Metallics

(Rs. Lakhs)

		7	ear ending	30th Sept	ember
		1967	1968	1969	1970
1.	Business Turnover	32.33	47.02	60.45	87.80
2.	Gross Profits	. 6.86	7.90	9.99	20.67
3.	Depreciation	. 1.08	2.06	3.46	5.47
4.	Tax Provision	. 3.33	2.12	2.15	7.83
5.	Development Rebate	. 0.09	1.47	1.77	2.11
6.	Net Profits	. 2.36	2.25	2.61	5.25
7.	Share Capital (Equity Shares only)	4.45	4.45	4.45	4.45
8.	Reserves	. 4.75	8.47	12.06	17.49
9.	Net worth	. 9.20	12.92	16.51	21.94
10.	Loans total of which	. 8.89	13.82	13.62	12.31
	10.1 Long Term	AND	信由	• •	• •
	10.2 Short Term (Secured)	. 8.89	13.82	13.62	12.31
1.	Total Capital employed (9+10)	. 18.09	26.74	30.13	34.25
2.	Gross Profits as a % of Turnover	. 21.2	16.8	16.5	23.5
3.	Net Profits as a % of	1/2/3/3/	2.0		
	13.1 Turnover	. 7.3	4.8	4.3	6.0
	13.2 Share Capital .	. 53.0	50.6	58.6	118.2
	13.3 Net worth	. 25.6	17.4	15.8	24.0
	13.4 Total capital employed	13.0	नयने 8.4	8.7	15.4
4.		. 1:2.0	1:3.1	1:3.1	1:2.8

(ii) M/s. Harbans Lal Malhotra & Sons Pvt. Limited

(Rs. Lakhs)

						Year end	ding 31st M	arch	
					1967	1968	1969	1970	1971
					1	2	3	4	5
1.	Business Turnover			•	260.67	288.05	278.82	309.27	340.47
2.	Gross profits				56.11	58.02	52.68	62.80	56.00
3.	Depreciation .	•			9.12	10.01	10.17	13.13	11.98
4.	Tax Provision				31.37	30.71	26.03	30.25	26.37
5.	Development Rebate		•		1.47	1.28	1.09	2.18	0.58

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TABLE 6—Contd.

			1	2	3	4	5
6.	Net Profits		14.15	16.02	15.39	17.23	17.16
7.	Share Capital (Equity Shares	only)	26.60	26.60	36.00	36.00	36.00
8.	Reserves		77.00	91.72	104.61	120.68	134.39
9.			103.60	118.32	140.61	156.68	170.83
10.	Loans total of which		20.66	36.79	30.78	44.25	32.77
	10.1 Long Term . 10.2 Short Term (Secured)		20.66	36.79	30.78	44.25	32.77
11.	Total Capital employed (9+1	. (0)	124.26	155.11	171.39	200.93	203.60
12.	Gross Profits as a % of Turno	ver .	21.6	20.1	18.9	20.3	16.4
13.	Net Profits as a % of						
	13.1 Turnover		5.4	5.6	5.9	5.6	5.0
	13.2 Share capital .		53.2	60.2	45.8	47.9	47.7
	13.3 Net worth		13.5	13.6	11.7	11.0	10.0
	13.4 Total capital employed	•	11.4	10.3	9.6	8.6	8.4
14.			1:0.8	1:1.4	1:0.9	1.1:2	1:0.9

(iii) M/s. Indo-Swing Pvt. Limited

(Rs. Lakhs)

		72/14/8	Year end	ing 30th Ju	ne	
		1967	1968	1969	1970	1971
1.	Business Turnover	38.26	42.54	46.18	39.32	66.89
2.	Gross Profits	8.66	9.68	10.61	12.55	12.14
3.	Depreciation	0.52	0.53	0.67	2.45	2.88
4.	Tax Provision	4.89	5.70	5.96	5.35	5.35
5.	Development Rebate	0.34	• •	0.35	0.75	0.43
6.	Net Profits	2.91	3.45	3.63	4.96	3.48
7.	Share Capital (Equity Shares only)	10.50	10.50	10.50	10.50	10.50
8.	Reserves	6.37	9.22	12.14	15.79	19.35
9.	Net worth	16.87	19.73	22.64	26.29	29.85
10.	Loans-Total of which	2.16	1.70	9.52	9.21	1.09
	10.1 Long Term	••	4.	• •		• •
	10.2 Short Term (Secured) .	2.16	1.70	9.52	9.21	1.09
11.	Total Capital employed (9+10)	19.03	21.42	32.16	35.50	30.94
12.	Gross Profits as a % of Turnover .	22.6	22.8	23.0	31.9	18.1
13.	Net Profits as a % of					
	13.1 Turnover	7.6	8.1	7.9	12.6	5.2
	13.2 Share Capital	27.7	32.8	34.7	47.2	33.1
	13.3 Net worth	17.2	17.5	16.1	18.9	11.7
	13.4 Total Capital employed .	15.3	16.1	11.3	14.0	11.2
14.	Equity: Debt ratio	1:0.2	1:0.2	1:0.9	1:0.9	1:0.1

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TABLE 6—Contd.

(iv) Trading Companies—Bharat Marketing & Advertising Co.

(Rs. Lakhs)

			Year	ending	30th July	
		1966	1967	1968	1969	1970
1. Business turnover		15.56	99.77	104.99	109.85	95.30
2. Gross profits		2.41	3.55	2.36	3.46	2.42
3. Depreciation provision		• •			• •	
4. Tax provision		0.35	0.34	0.52	0.88	0.67
5. Development rebate		• •	••		••	• •
6. Net profits		2.06	3.21	1.84	2.58	1.75
7. Share capital**	•	3.25	4.32	2.43	4.60	5.86
8. Reserve & Surplus		• •			••	••
9. Net worth	•	3.25	4.32	2.43	4.60	5.86
0. Loans+						
10.1 Long-term		_ FFE		• •	••	•••
10.2 Short-term		1.55	0.01		• •	• •
10.3 Total	. 4	1.55	0.01		4.	• •
1. Total capital employed		4.80	4.33	2.43	4.60	5.86
2. Gross profits as a % of turnover		15.5	3.6	2.2	3.2	2.6
3. Net profits as a % of		VA VV	10			
13.1 Turnover		13.2	3.2	1.8	2.3	1.8
13.2 Share capital	•	63.4	74.3	75.6	65. 9	38.4
13.3 Net worth		63.4	74.3	75.6	65.9	38.4
13.4 Total capital employed		42.9	74.1	75.6	65.9	38.4

^{*}Excludes proceeds from import entitlements, cash subsidy, Drawbacks etc. + Bank over draft.

**Accounts of partners, in the case of the first two companies.

Source: Annual reports and balance sheets of the companies.

(iv) Trading Companies-Raj Commercial Corporation

(Rs. Lakhs)

					Year en	ding 31st D	ecember—	
•				1966	1967	1968	1969	1970
1				2	3	4	5	6
1. Business turnover	•	•	•	86.22	98.46	135.21	118.91	124.05
2. Gross profits .				3.10	1.70	3.50	2.53	4.54
B. Depreciation provision					• •	••	••	
l. Tax provision			•		0.22	0.83	0.59	1.09
5. Development rebate						••	• •	• •
6. Net profits			•	3.10	1.48	2.67	1.94	3.45

TABLE 6-Concld.

1				2	3	4	5	6
7. Share capital** .		•		3.25	1.94	3.08	3.66	5.07
8. Reserve & Surplus				• •	• *•		••	
9. Net worth			•	3.25	1.94	3.08	3.66	5.07
10. Loans+								
10.1 Long-term				• •	• •	• •	• •	
10.2 Short-term					• •	• •	• •	
10.3 Total .				• •		• •		
1. Total capital employe	d.	•	• .	3.26	1.94	3.08	3.66	5.07
2. Gross profits as a % o	f turn	over		3.6	1.7	2.6	2.1	3.6
3. Net profits as a % of								
13.1 Turnover				3.6	1.5	2.0	21.86	2.8
13.2 Share capital			•	95.1	76.3	86.7	53.0	68.0
13.3 Net worth				95.1	76.3	86.7	53.0	68.0
13.4 Total capital er	nploy	ed		95.1	76.3	86.7	53 .0	68.0

^{*}Excludes proceeds from import entitlements, cash subsidy, drawbacks etc. + Bank over draft

Source: Annual reports and balance sheets of the companies.

(iv) Trading Companies-Malhotra Export House Pvt. Ltd.

(Rs. Lakhs)

			72144	Year endin	g 31st Dece	mber	
			1966	1967	1968	1969	1970
1. Business turnover			7.88	9.38	15.04	16.33	27.75
2. Gross profits .			1.28	2.00	1.18	1.25	1.20
3. Depreciation provision			0.07	0.04	0.06	0.05	0.04
4. Tax provision			0.85	1.32	0.78	0.81	0.75
5. Development rebate				• •	• •		• •
6. Net profits			0.36	0.64	0.34	0.39	1.01
7. Share capital**			1.29	1.29	1.29	1.29	1.29
8. Reserve & Surplus			0.33	0.79	1.00	1.07	2.09
9. Net worth			1.62	2.08	2.29	2.36	3.38
0. Loans†							
10.1 Long-term		•			• •	• •	• •
10,2 Short-term			••	••	• •	••	• •
10.3 Total .		,		••			
1. Total capital employed			1.62	2.08	2.29	2.36	3.38
2. Gross profits as a % of		over	16.2	21.3	7.4	7.3	6.4
13. Net profits as a % of					-		
13.1 Turnover			4.6	6.8	2.2	2.4	3.7
13.2 Share capital			27.9	49.6	26.4	30.2	78.3
13.3 Net worth		•	22.2	30.8	14.8	16.5	29.9
13.4 Total capital em	olov	ed	22.2	30.8	14.8	16.5	29.9

^{*}Excludes proceeds from import entitlements, cash subsidy, drawbacks etc. + Bank over draft

Source: Annual reports and balance sheets of the companies.

^{**}Accounts of partners, in the case of the first two companies.

^{**}Accounts of partners, in the case of the first two companies.

TABLE 7
Profitability ratios of other firms engaged in manufacture of razor blades

(Rs. lakhs)

		M/s. Sh	M/s. Sharpedge Ltd	td.		M/s. Na	ional Ra	zors & 1	M/s. National Razors & Blades Pvt.Ltd.	t.Ltd.	M/s. Ce	ntron In	M/s. Centron Industrial Allience	llience
		Year ending	ng 31st D	31st December			Year end	Year ending 31st March	March		Year	ending 3	Year ending 31st December	nber
	1966	1967	1968	1969	1970	1967	1968	1969	1970	1971	1967	1968	1969	1970
1. Eusiness turnover	23.29	40.98	62.09	79.15	88.44	12.76	7.18	7.16	6.80	8.72	32.77	24.68	18.47	57.80
2. Gross profits -	8.57	19.93	27.78	38.53	38.89	2.69	0.93	0.65	0.52	1.52	1.63 –	-1.13	0.42	5.53
3. Depreciation Provision	0.48	0.58	1,96	2.96	3.34	0.35	0.28	0.26	0.40	0.35	0.35	0.29	0.86	1.41
4. Development rebate	90.0	0.0	96.0	0.45	0.12	0.04	0.03	:	:	:	:	:	2.28	0.76
5. Tax provision	5.11	11.79	14.27	20.61	23.30	1.65	0.24	0.10	:	0.28	0.75	:	:	:
6. Net profits	2.92	7.47	10.59	14.52	12.23	0.65	0.28	0.09	0.25	0.11	0.53	-1.42	-2.72	3.36
7. Share capital	5.00	5.00	9.00	13.50	13.50	4.35	4.35	4.35	4.35	4.35	8.10	8.10	8.10	10.12
8. Reserves	1.99	9.26	10.84	15.00	21.81	1.86	2.16	2.25	2.46	2.35	1.13	-0.28	-0.72	3.39
9. Net worth	6.9	14.56	19.84	28.50	35.31	6.21	6.51	6.60	6.81	6.70	9.23	7.82	7.38	13.51
10. Loans	2.52	:	:	0.10)	1.10	2.59	3.65	4.34	2.14	4.25	21.70	32.41	49.65
 Total Capital em- ployed 	9.51	14.56	19.84	28.60	35.31	7.31	9.10	10.25	11.15	8.84	13.48	29.52	39.79	63.16
12. Gross profits as $\%$ of turnover	36.8	48.6	43.9	48.7	4.0	21.1	13.0	6.3	9.1	0.9	5.0	*	2.3	9.4
13. Net profits as a %of														
13.1 Turnover	12.5	18.2	17.0	18.1	13.8	5.1	3.9	1.3	3.2	:	1.6	:	*	5.8
13.2 Share capital	58.4	149.4	117.7	9'.201	9.06	14.9	6.04	2.1	5.1	#	6.5	*	#	33.2
13.3 Net worth	41.9	51.3	53.4	50.9	36.6	10.5	14.3	1.3	3.2	*	5.7	:	*	24.9
13.4 Total capital employed	30.7	51.3	53.4	50.7	34.6	8.9	3.1	6.0	2.0	*	3.9	*		6. 3

*Gross profits from manufacturing activities only were 4.58, 1.87, 2.27, 1.63 and 1.83 respectively for the 5 years.

Source :-Balance sheets and annual accounts of the companies.

^{**}Negative profits

BEFORE THE CENTRAL GOVERNMENT

In the matter of the notice under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969

AND

In the matter of the proposal of M/s. Vidyut Metallics (Prop. Panama Pvt. Ltd.) to effect substantial expansion by increasing its capacity for manufacture of Safety Razor Blades.

The Panama Private Limited owning M/s. Vidyut Metallics (hereinafter referred to as the "applicant company") gave a notice under section 21 of the Monopolies and Restrictive Trade Practices Act, 1969 (hereinafter referred to as "the Act" indicating its proposal to effect substantial expansion by increasing its capacity for the manufacture of Safety Razor Blades from 90 million Nos. to 250 million Nos. per annum on single shift basis. The capital expenditure of Rs. 15 lakhs was proposed to be spent in two stages i.e. Rs. 10 lakhs (consisting of building Rs. 3 lakhs and plant and machinery Rs. 7 lakhs) in the first year and Rs. 5 lakhs (consisting of Rs. 2 lakhs on building and Rs. 3 lakhs on plant and machinery) in the second year. It was proposed to meet the capital outlay from its own internal resources.

- 2. On the basis of information available to it, the Central Government formed the opinion that an order in this case under section 21(3) (a) of the Act could not be passed without a further enquiry and report by the MRTP Commission (hereinafter referred to as "the Commission"). Accordingly, in exercise of the powers conferred by clause (b) of sub-section (3) of section 21 of the Act, the Central Government referred the notice of the applicant company under section 21 of the Act to the Commission for further inquiry and report. The Commission recommended rejection of the proposal of the applicant company.
- 3. As required under the relevant Rules framed under the Act, two advertisements—one in The Indian Express of 24th February, 1971 and in the Indian Trade Journal of 17th March 1971, were published. An opportunity of being heard under section 29 of the Act was given to the applicant company as well as to other interested parties who had made their submissions on the proposal before the Commission (list enclosed). Apart from the applicant company, the representatives of the following companies were present at the hearing:—
 - (i) Ghaziabad Engg. Co. Pvt. Ltd., New Delhi.
 - (ii) National Razor Blades Co. Pvt. Ltd., Calcutta
 - (iii) Sharpedge Limited, New Delhi.
 - (iv) Uttar Khand Blades Co. Pvt. Ltd., Dehra Dun.
 - (v) Mysore State Industrial Investment and Development Corporation Limited, Bangalore.
 - (2) The objectors advanced the following reasons for their objection against the proposal:
 - (a) It would add to the monopolistic position which is enjoyed by the applicant company which commands about 85% of the total production in the country.
 - (b) The conversion of the applicant company into a public limited company would not help in diluting its existing monopoly position.
 - (c) The company had already unutilised capacity available with it and can easily produce within that capacity the quantity now asked for.
 - (d) The parties, to whom letters or intent had already been issued, should be allowed sufficient time to go into stream to prove whether or not they would be in a position to implement their schemes.
 - (e) The other companies of Malhotra group (to which the applicant company belongs) have spare capacities available in their factories at Calcutta and Hyderabad. They should, therefore, run those factories to the full capacity instead of expanding their Bombay factory which forms the subject matter of this proposal.
 - (f) As regards export obligation there was no way of checking that the export obligation was being fulfilled out of the expanded production of the Bombay unit only as brand names of the blades produced at different units belonging to this party were the ame sand it would not be possible to identify the products of a particular unit.

- (3) The representatives of the applicant company in support of the proposal, stated that they were producing the finest razor blades in the Country, that their pricing policy was as economical as possible and that they proposed switching over to stainless steel blades to give the cheapest and best blades for the public. They also mentioned that their exports had gone up over a period of years and their blades were the cheapest in the world. They were also agreeable to convert the company into a public limited one. They also agreed to undertake an export obligation of 60% of the total output and the proposed foreign collaborators Wilkinson Sword Limited, U.K. would assist in exports. They also desired Central Government to bear in mind the time that the new parties, to whom letters of intent had been issued, would take to put their schemes into effect.
- (4) The Commission, in its report, has dealt at length with the company's contentions in support of the proposal and also the objections lodged by the interested persons against the proposal and finally recommended rejection of the proposal. The reasons which mainly weighed with the Commission in recommending rejection of the proposal were as under:—
 - (a) The Malhotra group to which the applicant company belongs controls 87.5% if the licensed capacity in the country. They have been "Blade Kings" for two decades and would remain so in future also, inspite of the letters of intent issued by the Government to seven parties and the possibility of three more parties being issued letters of intent.
 - (b) The production of the applicant's inter-connected undertakings has been far below their sanctioned capacities. Two of the sister concerns have achieved only 50% of their respective licensed capacities and the production of one has started showing a downward trend till it was just 35% in 1970.
 - (c) The Calcutta unit and the Hyderabad unit of the Group have unutilised capacity of about 1000 million and 125 million nos. respectively.
 - (d) An economically viable unit need not necessarily have a capacity of 250 million numbers as there are other units, including the applicant company which with a lessor capacity are functioning successfully and earning good profits.
 - (e) The past record of the company in honouring its export commitment has been poor and as such the present proposal could not be supported on the grounds that it would be procuring a lot of foreign exchange for the country.
 - (f) The price obtained by Malhotra Group in the export market is hardly enough to meet the cost of raw materials imported by it.
 - (g) All the companies of the Group are purely family concerns without any benefit of their activities being available to the public.
- 4. The Central Government have carefully considered the recommendation of the Commission for rejecting the proposal including the reasons advanced in support thereof. It has been noted that the applicant Company (which belongs to Malhotra Group) is a monopolistic undertaking controlling for many years about 90% of the capacity for manufacture of safety razor blades. The Central Government have also taken note of the objections raised against the proposal by the interested parties. After taking into consideration all the facts and circumstances of the case including the recommendation of the Commission and objections raised, the Central Government came to the conclusion that it would not be in the public interest to allow the proposal of the applicant company.

ORDER

In exercise of its powers under clause (c) of section 3 of section 21 of the Monopolies and Restrictive Trade Practices Act, 1969, the Central Government hereby rejects the proposal of M/s. Vidyut Metallics (Prop. Panama Private Limited) for expansion of its capacity for manufacture of Safety Razor Blades contained in its notice dated 12-2-1971 under section 21 of the Act.

A.K. GHOSH

Under Secretary to the Government of India

New Delhi, 16th July, 1973

सन्धमेव जयत

List of "interested parties" who have objected to the proposal of Vidyut Metallies:

- Centron Industrial Alliance Private Ltd., India Assurance Building, Church Gate, Bombay-20.
- National Razor Blades Co. (P) Ltd., 35-Stephen House, 4-Dalhausie Square, Calcutta.
- Sharpedge Ltd.,
 34, Industrial Estate,
 Okhla, New Delhi.
- 4. Uttar Khand Blades Pvt. Ltd., Post Box No. 83, Dehradun.
- T.T. Blades,
 T.T. Blades Building,
 9-A, Saki Naka, Andheri,
 Bombay-3
- Mysore State Industrial Investment and Development Corporation Ltd., Hariniwas, 36, Cunningham Road. Bangalore-1 (Mysore)
- U.P. State Industrial Corporation Ltd., Directorate of Industries Building, P.B. No. 413, 117/420, G.T. Road, Kanpur-2 (U.P.)
- 8. Ghaziabad Engineering Co. Pvt. Ltd., 42, Janpath, New Delhi.
- Podar Estate Ltd., Hong Kong House (1st Floor), 31, Dalhousie Square, Calcutta-1
- H.L. Malhotra & Sons Pvt. Ltd., 12, New C.T.T. Road, Calcutta-12



REPORT UNDER SECTION 21 (3) (b) OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969, IN THE CASE OF VULCAN-LAVAL LIMITED, BOMBAY.

सन्यमेव जयते



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INTRODUCTION

M/s. Vulcan Laval Ltd., Bombay (hereinafter referred to as applicant Company) with factory and administrative offices located at Dapodi at main Bombay-Poona Road, Pune, made an application on the 4th August, 1977 to the Department of Company Affairs under sub-Section (1) of Section 21 of the M.R.T.P. Act, 1969 (hereinafter referred to as the Act) for approval of the Central Government for substantial expansion of its activities by way of manufacture of plant, machinery and equipment for the processing of tobacco and for the manufacture of tobacco products. The Central Government referred the proposal to the Commission under Clause (b) of sub-Section (3) of Section 21 of the said Act for enquiry and report vide Department of Company Affairs letter No. 1/19/77-M(III) dated the 15th February, 1978.

On receipt of the reference, the Commission issued a Notification on 18th February, 1978 for publication on 28th February, 1978 in the major daily newspapers viz., Economic Times, Financial Express, Hindu, Amrita Bazar Patrika, Times of India, Indian Express, Nav Bharat Times (Hindi), Lok Satta (Marathi), Statesman, Maharasthra Times, Gujarat Samachar (Gujrati) and Andhra Patrika (Telugu), inviting comments on the proposal of M/s. Vulcan Laval Ltd., from all parties concerned, which were affected by the proposal. It also issued detailed questionnaire to M/s. Vulcan Laval Ltd., and addressed letters, some with and other without questionnaires, to the concerned Government Departments/Organisations, manufacturers of tobacco processing machinery and tobacco products machinery and other parties which were connected or concerned with the proposal. Barring a few, replies were received from all who were addressed by the Commission.

In terms of sub-Section (2) of Section 30 of the Act, the Commission was to submit its Report to the Central Government by 15th May, 1978. However, the date for submission of the Report had to be extended up to 30th June, 1978, as a part of the information originally asked for and certain clarifications on the information supplied were not received from the applicant Company in time. Information/comments from some of the concerned Departments of the Government were also received late. Further, the public hearing could not be fixed before 20th May, 1978 as it required 21 days notice which could not be given till the information received was adequate. The order of the Commission dt. 5-5-1978 extending the date for submission of the Report is annexed (Annexure-I).

The public hearing in the case was held on 20th May, 1978. The list of persons who were present during the hearing is given in Annexure II.

सन्धर्मव जयते



CHAPTER I

The Applicant Company

1.01 The applicant is a public limited Company registered under Section 20(b) (i) of the Act. It is also registrable under Section 20(a) (ii) of the Act. It is a dominant undertaking in production of dairy, milk and food processing machinery. It manufactures a wide range of industrial machinery and has an annual turn-over of Rs. 10.69 crores (during 1977) and assets of Rs. 9.85 crores (as at the end of 1977). It is a foreign-owned Company, non-residents accounting for 70.41% of its paid up capital.

Inter-connections

- 1.02 The applicant Company is inter-connected with M/s. Vimco Limited, M/s. Svenska Tandsticks AB, Sweden (Swedish Match Company), holds 46.91% of paid-up capital of the applicant Company and 40% of the paid-up capital of M/s. Wimco Limited. M/s. WIMCO Limited has assets of Rs. 22.5 crores (in 1976) and is the dominant manufacturer of matches, sodium chlorate and potassium chlorate. Chairman of the Board of Directors of the applicant Company (Shri Kamaljit Singh) is also the Managing Director of M/s. WIMCO Limited.
- 1.03 In January, 1978 M/s. WIMCO Limited acquired controlling interest in Sun-Sip Private Limited, New Delhi, whereby the latter Company became a subsidiary of the former. M/s. Sun-Sip Private Limited has a controlling interest in M/s. Chandigarh Superfood Private Limited, New Delhi. Thus both these Companies i.e., Sun-Sip Priate Limited and Chandigarh Superfood Private Limited have become inter-connected with the applicant Company in terms of Section 2 (g) of the Act.

Origin

1.04 The applicant Company was incorporated as a private limited Company in 1937 with the name of Vulcan Trading Company, a wholly owned subsidiary of the Swedish Match Company. It was then engaged in trading activities and represented several leading Swedish manufacturers. The diversification from trading to manufacturing started in 1963, when the Company, started production in Pune. In may, 1965, it acquired the assets and liabilities of Alfa Laval Limited, the Indian manufacturing unit of Alfa Laval AB, Sweden, by way of amalgamation. As a result of the said amalgamation, the Company became a public Company on 29th May, 1965. On 1st October, 1965 the name of the Company was changed to its present name i.e. Vulcan Laval Limited. The assets of the erstwhile Alfa Laval Limited included a factory at Pune for stainless steel fabrication which was adjacent to the factory of Vulcan Trading Company.

Board of Directors

1.05 The Board of Directors of the applicant Company consists of 10 persons, of which four are Swedish nationality and remaining six, including the Chairman and the Managing Director, are Indian nationals. Two of the non-resident Directors are also Directors in various companies associated with the Swedish Match Company, Sweden, and the remaining two non-resident Directors are Directors in various Companies associated with Alfa-Laval AB, Sweden. Shri Kamaljit Singh, Chariman of the Board of Directors of the applicant Company holds 723 shares in the applicant Company (0.05% of the total) and Shri V. Isvaran, a Director, holds 287 shares (0.02% of the total).

Equity Capital

- 1.06 The applicant Company has authorised capital of Rs. 200 lakhs, divided into 20 lakh shares of Rs. 10 each. Its issued and subscribed capital as at the end of December, 1977 was Rs. 148.53 lakhs, consisting of 14,85,316 shares of Rs. 10 each.
 - 1.07 The present pattern of shareholding of the applicant Company is as in Table I.

TABLE 1
Pattern of Share-Holding

			Paid up value of shares Rs. lakhs	Per cent share in the total paid-up Capi- tal
Ī	Non-residents			
	(i) Savenska Tandsticks AB, Sweden Company)	n (Swedish Match	69.68	46.91
	(ii) Alfa Laval AB, Sweden .		34 .84	23.46
	(iii) Other (4 individuals) .		0.06	0.04
		Total .	104.59	70.41
II.	Indians			
	(i) ICICI		5.53	3.73
	(ii) Others (Less than 1% each)		38.41	25.86
		TOTAL .	43.94	29.59
III.	Total paid-up Capital		148.53	100.00

(Source: Questionnaire replies).

The first two non-resident shareholders are foreign collaborators of the applicant Company; none of the other four non-resident individuals owning equity shares of the Company is a Director of the Company, or a relative of any of its Directors.

1.08 The applicant Company started with a paid-up capital of Rs. 2.0 lakhs in 1937. Subsequent increases are briefly summarised in Table-2.

TABLE 2

Growth in Paid-up Capital	Paid-up capital Rs. lakhs
(i) Shares issued to the Swedish Match Company in consideration of cash payment by it mainly to the erstwhile partners of the applicant Company in December, 1937	2.00
(ii) Shares issued in October, 1961 against value of machinery supplied by the Swedish Match Company	2.00
(iii) Shares allotted in May, 1965, to the erstwhile shareholders of Alfa Laval Ltd. as consideration for the assets of Alfa Laval Ltd. acquired by the aplicant Company under scheme of amalgamation	0.63
(iv) Shares issued in December, 1966, against off set of loan given by Alfa Laval AB (7.55) and cash payment (15.31)	22.86
(v) Shares issued in October, 1968, against offset of a loan given by the Swedish Match Co. (24.18), loan given by Alfa Laval AB (7.82) and cash payment of (4.42)	36.42
(vi) Shares issued in August, 1969, for payment of cash	20.70
(vii) Shares issued in December, 1974, for conversion of a part of term loan advanced by ICICI	3.00
(viii) Bonus shares issued in October, 1975	56.69
(ix) Issue of shares in March, 1977, for cash	4.23
	148.53

(Source: - Questionnaire replies).

It would be noted that of the present paid up capital of Rs. 148.53 lakhs, Rs. 56.69 lakhs, or 38.2% represents capitalisation of reserves.

- 1.09 Non-resident share-holding of the applicant Copmpany was 99.29% in August, 1969. It has since been reduced to 70.41% in various stages as briefly stated below.
 - (i) In August, 1969 the foreign equity holding was brought down to 75.0% through a public issue of shares to the extent of Rs. 20.70 lakhs.
 - (ii) The foreign equity was diluted to 72.49% in December, 1974 when ICICI converted a part of the term loan (Rs. 3.0 lakhs) into equity shares. The shares were issued to ICICI at a premium of Rs. 5.00 per share.
 - (iii) The foreign equity was further reduced to 70.41% in March, 1977 when shares of the value of Rs. 4.23 lakhs were offered to the public in terms of approval by the Department of Company Affairs for implementation of the proposal for manufacture of leather tanning and finishing mahcinery. These shares were issued at a premium of Rs. 3.00 per share.

Carry on of Existing Activities

- 1.10 Foreign-owned companies are required to get approval of the Government under the Foreign Exchange Regulation Act, 1973 for carrying on their activities in India. On an application dt. 27th June, 1977, by the applicant Company, the Reserve Bank of India issued letter on 21st November, 1977 conveying the permission to the applicant company to carry on its existing manufacturing activity in India subject to conditions, important among which were as below:—
 - "(i) The non-resident interest in the equity capital of your Company shall be reudeed to a level not exceeding 51 (fifty one) per cent within a period of one year from the date of receipt of our letter No. EC.CO.FGS. 1005/407 (Activity)-29-II-4-77 dt. 21st April, 1977 and the Company shall submit to us by 21st December, 1977 its specific proposals for complying with this condition."
 - "(iv) The annual turn-over from the Company's activities relating to the manufacture of the items covered by Appendix-I to Industrial Licensing Policy, 1973 and exports out of other items (not covered by the said Appendix-I) manufactured by the Company shall not be less than 60 (sixty) per cent of the total annual turn-over from its all activities. The Company shall submit to us every year an audited statement giving itemwise production and turn-over from manufacturing activities as also activity-wise turn-over from its other activities."
 - "(v) The Company shall earn foreign exchange by export of goods manufactured by it, the ex-factory cost (less excise duty, if any) of such exports in each year being not less than 10 (ten) per cent of the ex-factory cost (less excise duty, if any) of the Company's total production during the year. The export obligation shall be fulfilled within two years from the the date of receipt of our letter No. EC.CO.FCS. 1005/407) (acitivity)-29-II-4-77 dt. 21st April, 1977 and subsequently the Company's exports in each year out of its own production shall continue to be maintained at a level not less than the minimum level of export performance stipulated above. The said export obligation shall be in force till such time the non-resident interest in the Company continues to be more than 40%."
- 1.11 The applicant Company, however, informed the Reserve Bank of India that in view of the uncertain international conditions, it would not be in a position to undertake the export obligation. Accordginly, the Reserve Bank of India in modification of its approval of 21st November, 1977, granted permission on 5th April, 1978 to the applicant Company to carry on its activities in India subject to the condition, among others, that "the non-resident interest in the equity capital of your Company shall be reduced to a level not exceeding 40% (forty per cent) by 30th September, 1978".

- 1.12 The applicant Company submitted to the Reserve Bank of India (on 13th May, 1978) the following scheme for dilution of equity:—
 - "Our scheme of dilution of non-resident holding rests on a partial disinvestment and a Rights Issue. Its main features are—
 - 1. Subject to your permission under FERA, 1973, a disinvestment of Rs. 0.8 million by Swedish Match Company and of Rs. 0.4 million by Alfa-Laval AB, the main foreign shareholders, is envisaged. The disinvested shares will be offered at a permium partly to the Industrial Credit and Investment Corporation of India Ltd., against the conversion option of a loan recently sanctioned by them to us and partly to other financial institutions.
 - 2. Shares to a face value of Rs. 0.41 million (i.e., 5% of the net increase in capital) will be offered to the Company's Indian employees, Directors and business associates, also at the same premium.
 - 3. The balance of Rs. 7.91 million will be offered as Right shares to the existing Indian shareholders (which includes some Directors, employees, bodies corporate and public financial institutions) in the ratio of nine shares for every five held, again at the same premium.

The form, content and manner of implementation of the Scheme are subject to approval from the Controller of Capital Issues, New Delhi.

The present pattern of our share-holding and the equity structure as it will be altered after the proposed scheme of reduction of non-resident holding are tabulated below:—

							Present sha	reholding	Altered sha	reholding
					II.	1 / If	Amount at ace value Rs. million	%	Amount at face value (Rs. million)	%
			,	1	(III)	9/	1	2	3	4
Α.	Non-Residents				सव	मेव ज	य ने			
	(a) Swedish Match		•			•	6.97		6.17	
	(b) Alfa-Laval				•		3.48		3.08	
	(c) Individuals				•	•	0.01		0.01	
							10.46	70.41	9.26	39.95
В.	Employees, Director	s and	Asso	ociates			*	*	+0.41	+1.78
C.	Public Financial Ins	tituti	ons			•	0.81	5.48	3.48	15.02
D.	General Public						3.58	24.11	10.03	43.25
							14.85	100.00	23.18	100.00

^{*}Separate figures are not readily available.

Source: Questionnaire replies.

- 1.13 The Reserve Bank of India has also conveyed its permission to the applicant Company to carry on its existing trading/commercial activities of sale of imported equipment and products, drilling accessories, bought out spares and components of the products manufactured by the Company and hiring of machinery and equipment subject to the following conditions:—
 - (i) The annual turn-over/income from the Company's trading/commercial activities shall not exceed the level achieved during the year ended 31st December, 1973, without prior permission of Rerserve Bank of India.

- (ii) The Company shall not use for internal trade its own or any foreign trade marks for marketing the products not manufactured by it.
- 1.14 In the context of the trading activities, the applicant Company has been permitted to continue to act as selling agent of the under-noted foreign Companies
 - (i) Kamas Kvarmaskiner AB, Sweden,
 - (ii) Anhydro A/s, Denmark,
 - (iii) Fredriksons Verkstads AB, Sweden,
 - (iv) Hofliger & Karg, West Germany,
 - (v) Dania Shoe Machinery Works, Denmark,
 - (vi) Alfa-Laval AB, Sweden,
 - (vii) Vab Calor, Sweden,
 - (viii) Sala Maskinfabrika, AB, Sweden,
 - (ix) Arenco AB, Sweden, and
 - (x) Kustner Brothers, Switzerland.

The applicant Company has entered into agency agreements with the above parties which provide for commission payments ranging between 2.5% and 20.0%. Details of the agreements may be seen at Annexure-III.

1.15 The applicant Company has stated that it does not have accurate data on the actual imports of spare parts and machinery as per the above permission by which it acts as an agenet. However, based on agency commission received by it from the foreign principles, the value of such imports has been estimated as in Table-3.

TABLE 3

				 Imp	orts for	tradi	ng acti	vities				(Rs. lakhs)
Year					सद्य	भेव ज	यते					
1973			•		•		•					160
1974		*							•	•	•	130
1975									•	•		90
1976	•			•			•	٠.	•			50
1977				•						•	•	20

Source: Questionnaire replies.

It would be noted that trading activities of the applicant company have been nn decline and accounted for 2% of its turnover during 1977.

Manufacturing Activities

1.16 During the year, 1960, the applicant Company obtained four industrial licences for manufacture of dairy machinery, auxiliary equipment for dairy, chemical and food industries, vegetable oil plants, oil separators and vaccum units. The manufacturing range was expanded in 1963 when additional licence was obtained for manufacture of Spur and Helical gears and again in 1968 when licence for diamond core drilling, carbide tipped tools and mining accessories was secured.

During the year, 1970, Company went in for further substantial expansion in the following fields:—

(i) Two industrial licences were obtained for manufacture of coils (plate type) and evaporation, spray and flash drying plants.

(ii) The Company got itself registered with DGTD for manufacture of equipment in the following four fields:—

Meat Processing Plants,
Poultry and animal feed plants,
Seed cleaning plants, and
Complete silo equipment.

Government did not approve any specific capacity in regard to the above items but the registration letter stated that the capacities would be fixed after two years from commencement of production.

- 1.17 During the year, 1971, the applicant Company again went in for diversification in the range of production and got itself registered with DGTD for manufacture of the following items:—
 - (i) Food and beverage processing machinery;
 - (ii) Packing and wrapping machinery; and
 - (iii) Air plates.

In 1972 it obtained an industrial licence for manufacture of plate heat exchangers.

- 1.18 The applicant Company again planned diversification of its production range during 1976. In September that year, it got its industrial licences endorsed for manufacture of special equipment for chemical, pharmaceutical and other allied industries under the diversification scheme within the overall licensed capacity for industrial machinery. During January, 1978, the industrial licences were got endorsed for manufacture of hydraulic presses, foundry moulding machines and shot blasting machines under the said diversification scheme. During 1977 it also got itself registered with DGTD for manufacture of plant, machinery and equipment for leather tanning and finishing, after securing approval of this expansion scheme under the MRTP Act.
- 1.19 Some of the industrial licences and registration letters indicate capacities for various individual types and sizes of machinery. The industrial licences or registration letters in which specific capacities for different types/sizes have been approved are stated in the following Table:—

TABLE 4
Scope of Industrial Approvals

		Group	/Item					Ty wł	o, of industrial items. pes/or sizes for nich specific capacits have been approd.
1.	Dairy machinery .		•	•	•	•	•	•	53
2.	Auxiliary equipment						•	•	9
3.	Vegetable oil plants, oil	separat	tors a	nd vac	cum i	units	•		13
4.	Special equipment for clequipment.	nemical	l, pha	rmace	utical	and a	allied		22
5.	Foundry equipment .			•					2
6.	Seed cleaning plants	•	•	•	•		•	•	4

Source: Copies of industrial licences/Registration letters as furnished by the applicant company.

- 1.20 The applicant Company has installed relevant capacity as covered by various industrial licences, except for carbide tipped tools for which the industrial licence was obtained during 1968. In regard to the items which it has been allowed to manufacture under the diversification scheme within the overall licensed capacity for industrial machinery, the applicant Company has already started manufacturing special equipment for chemical, pharmaceutical and allied industries for which industrial licence was endorsed in September, 1976. For the three items for which endorsement was made during January, 1978, the applicant Company proposes to manufacture components during 1978 itself on receipt of drawings from its collaborators.
- 1.21 In regard to the eight itmes for which the applicant Company has got itself registered with DGTD, it has so far manufactured only two items, namely, food and beverage processing machinery and packing and wrapping machinery, for which registration was made during the year 1971. It also claims to have supplied one prototype leather tanning and finishing machine for which registration letter was received in 1977. For the remaining five items for which the Company got itself registered during 1970/1971, little progress has been made. The applicant Company has offered the following explanation in this regard:
 - (i) It proposed to manufacture seed cleaning plants in collaboration with M/s. Kamas Kvarnmaskiner AB, Sweden; the terms of collaboration were approved by the Government in July, 1968, and the agrrement was taken on record by the Government in January, 1970. The applicant Company has stated: "In the meantime, however, the management of M/s. Kamas Kvarnmaskiner AB, Sweden, changed hands and this line of activity was discontinued by them. As a result, in spite of our best efforts our technical collaboration with its party did not bear fruit". It has also commented that "the demand for seed cleaning plants had fallen below economic levels that several small scale units had entered this field of manufacture and that many imported plants had been received as aid etc. by Government seed farms."
 - (ii) It also proposed to manufacture complete silo equipment in collaboration with M/s Kamas Kvarnmaskine AB. The technical collaboration agreement was approved by the. Government and taken on record in January, 1970. As in the case of seed cleaning plants, the collaboration for manufacture of silo equipment as well did not fructify, as the management of the foreign collaborator" changed hands and this line of activity was discontinued by them". The applicant Company has further commented that "the Food Corporation of India and other Government agencies concerned with collection and storage of food-grains abandoned their plans for to go in for small capacity farm silos for grain storage and decided to construct large capacity silos manufactured from RCC". Moreover, the applicant Company proposed to manufacture aluminium silos "which have become highly uncompetitive with the price of the raw material escalating beyond reasonable levels on account of shortages.
 - (iii) It has not so far manufactured or delivered poultry any animal feed mill plants but claims that it has on hand orders worth Rs. 2 lakhs for these equipments which it expects to execute shortly.
 - (iv) It has stated that during the last 8 years it has quoted for design, supply and installation of eleven meat processing plants of various capacities. It has so far received and executed three orders from public sector undertakings for Rs. 24.60 lakhs. It has now quoted for plants of bigger capacities within the country as also abroad, for 8 projects valued at Rs. 5.11 crores. The applicant Company has, however, remarked that "the Government's current thinking on the establishment of slaughter houses is not conducive to the growth of this industry. We, therefore, do not expect to progress much in this line of activity".
 - (v) It had started manufacturing air plates for Atlas Capco. The latter has, however, changed the design and has started its own production of this item. The applicant Company cannot find any other buyer of air plates and has accordingly discontinued its production.
- 1.22 Data on licensed/registered capacity, installed capacity, year of installation of capacity and production during the last five years is shown in Annexure-IV. A summary Statement showing performance in the year, 1977 is as in Table-5. It would be noted that our of 20 items for which the applicant company has licensed/registered capacity, it manufactured only 10 items of which one

viz., Spur and Helical was captively consumed, and the others were sold. Of the 10 items manufactured during the year, 1977 production exceeded the licensed capacity only in case of one item i.e., dairy machinery. In case of two items, the production was in excess of 50% of the approved capacity; whereas in the remaining seven items the production was below 50% of the approved capacity.

TABLE 5

Particulars of Licenced/installed capacity and production

				Annual Licinstalled ca		Production in 1977 (Nos.)	Turnover in 1977 (Rs. lakhs)
			1		2	3	4
I.	Inc	dustrial Licences					
	1	Dairy machinery	1960	*27,122	Nos	32,487	479
	2.	Stainless steel fittings, pumps and					
		refrigeration	1960	*10,470	Nos.	4,419	168
		Oil separators, vacuum units .	1960	*200	Nos.	172	149
	4.	Spur & Helical gears	1963	600	Nos.	547	• •
	5.	(a) Diamond core drilling and mining accessories -	1968	40,000	Nos.	18,905	24
		(b) Carbide tipped tools	1968	N.F.		• •	••
	6.	Evaporation, spray and flash drying		£	_		
		plants	1970	Rs. 175	lacs	4	16
	7.	Goils (Plate type)	1970	1,000	sq. mtrs		• •
	8.	Plate heat exchangers	1972	10,200	Nos.	78	94
	9,	Special equipment for chemical, pharmaceutical and other allied industries	1976	† 500	M. Tons	s 16	25
	10.	Foundry Moulding and Shot Blasting Machines	1978	†76	Nos.	••	••
	11.	Hydraulic Presses	1978	†25	Nos.	••	••
III.	Capa	ucities registered with the DGTD because In	dustrial Li	icences not reg	ired as per	· I (D&R) Ac	ŧ
	_	Meat processing plants	1970	NF	-	. ,	
		Poultry and animal feed mill plants	1970	NF			
		Seed cleaning plants	1970	375	Nos.		
		Complete Soil equipment	1970	NF		• •	••
		Food & beverage processing	1971	NF		8	4
		Packeting and wrapping machinery	1971	NA		30	30
		Air Plates	1971		lakhs		
		Plant, machinery and equipment for Leather Tanning and Finishing	1977	Rs. 128.2		One proto type)	

These capacities are on single shift basis

[†]Capacity granted within the overall Licensed capacity for Industrial Machinery

TABLE 6-Contd.

					1	2	3	4
IV.	Others		 					
	20. Spare							53
	21. Others						S	. 2
							•	1043

N. F. Licensed capacity not yet fixed.

Source: Applicant Company

- 1.23 As would be seen in Annexure IV, the industrial licences and registration letters specify approved capacities for various sizes, types, and specifications of the items allowed to be manufactured. The applicant Company has, however, stated that it has taken the view that these various items for which separate capacities have been indicated constitute classes of goods as shown in the above Table and accordingly the information on sub-limits relating to individual items of manufacture have been grouped to conform to the above classification.
- 1.24 It would be noted from Table-5 that dairy machinery is the most important item in the turn-over of the applicant Company and accounted for 45.9% of its total turnover during the year 1977. Stainless Steel fittings, pumps and refrigeration plants were the next important items accounting for 16.1% of the turn-over, followed by oil separators, vacuum units and vegetable oil plants (14.3% of turn-over).
- 1.25 The applicant Company has furnished the following breakup of its production for the last five years:—

TABLE 6
Pattern of Production

सन्धमन जयत

Rs. Lakhs

Year				Sales to interconnected Undertaking (WIMCO)	Other domestic sales	Exports	Changes in stocks	Total production
1973	•			1	430	2	29	462
1974				3	641	4	9	658
1975	•			19	557	13	33	621
1976		•		74	613	4	()54	636
1977			•	22	733	16	()2	769

Source: - Questionnaire replies

Besides the production worth Rs. 769 lakhs in 1977, the applicant Company received Rs. 290 lakhs as turn-over from erection, commission income, sale of bought out items etc. Total turn-over in the year was Rs. 1,060 lakhs.

- 1.26 The applicant Company is organised on the basis of four principal lines of activity as follows:--
 - (i) The Project Divisions handles mainly turn-key projects, specially in the milk industry. It has contributed to the development programme of the dairy industry launched by

- the National Dairy Development Board and the various State Governments and has supplied machinery/erected plants for projects such as Kurla dairy, Bombay, Madras Mother Dairy and Andhra Pradesh Dairy Development Scheme in Hyderabad, as also chilling centres at different places.
- (ii) The Industrial Products Division which deals with such products as stainless steel pumps and fittings, centrifugal separators, milk cans, cream separators, refrigeration compressors and place heat exchangers.
- (iii) The Machinery Division is engaged mainly in the manufacture and sale of packaging machinery. It has recently diversified into the production of various types of sophisticated leather tanning and finishing machines. Plans are on hand to manufacture foundry moulding and shot blasting machines and hydraulic presses.
- (iv) Mining Division looks after the manufacture and sale of core drilling accessories mostly to public sector undertakings and Government organisation like Geological Survey of India.
- 1.27 The existing works of the applicant Company comprise designing, manufacturing, selling, installation, commissioning and servicing of various types of machinery. Most of the items of machinery that it is licensed to manufacture and which are produced at its existing works involve common production techniques. The factory basically consists of the following:—
 - (i) Sheet Metal Fabrication shop has been established to manufacture all types of machinery and equipment with applications in dairy, food processing, pharmaceuticals and chemical industries. The floor area and installed equipment, when worked on three shifts, have a capacity of approximately six lakhs man hours and were utilised to the extent of about 70% during the year 1977. This shop makes sheet metal components, particularly of stainless steel, which form components of some of the types of industrial machinery made by the applicant Company.
- (ii) A Section in the Sheet Metal Fabrication Shop has been set up to manufacture one piece aluminium alloy cans, pales and similar items for the dairy industry. The capacity of this Section is 50,000 pieces and is utilised to the extent of 80%.
- (iii) The other workshop of the applicant Company is machine shop, where components of industrial machinery are machined and assembled. This part of the workshop caters to almost all its products because one or the other components of each machine passes through the machine shop at one time or the other. The machine in this workshop are mostly of general purpose machine tools. The capacity of the centre depends upon the product mix and the loading schedules. During the year 1977 it was utilised to the extent of 65% on an average.

Employment

1.28 The Company employes 1,111 persons as per the following Table:—

TABLE 7

Pattern of Employment

			Type of employee					No. o	Total	
 ·				1					2	3
(i)	Lab	our								
	(a)	Skilled .	•	•				•	366	
	(b)	Semi-skilled		•				•	96	• •
	(c)	Unskilled .			•			•	43	505

TABLE 7-Contd.

			l			2	3
(ii) Staff							
(a) Clerica	ıl				•	126	
(b) Techni	ical	• •	•		•	54	180
(iii) Supervisors						••	56
(iv) Manageria	l & Adminsi	trative Pers	onnel	. •	•	••	126
(v) Trainees &	Apprendices						
(a) Statut	ory		•		•	52	
(b) Under	Company's	Scheme .	•	• ,	.•	- 11	63
(vi) Temporary sites	and casus	al including	work	force	at		181
			Grand '	Готат			1111

Source: Questionnaire replies

That applicant Company has stated that it participates in Government sponsored training schemes such as apprenticeship programmes for craftsmen and commercial trade, as well as those for degree and diploma holders. On an aveage, 30—35 workmen are trained in this manner each year.

1.29 The applicant Company has stated that its wages/salaries compare favourably with the average wage/salary level in the region in which its factory is situated. According to its balance-sheet and profit and loss account for the year 1977, it had 33 officers, including paid Directors, who were in receipt of emoluments exceeding Rs. 3000 per month during 1977. The share of these employees in the total salary/wage bill of the applicant company for the year 1977 was 11 per cent.

Quality Control and R & D

- 1.30 According to the applicant Company, every product manufactured by it undergoes inspection at every stage of manufacture right from the raw material stage to the final assembly stage. The following inspection stages have been mentioned in this regard:—
 - (i) Raw material inspection;
 - (ii) Inspection of 'first off' machined components;
 - (iii) Final inspection after processing;
 - (iv) Assembly stage inspection; and
 - (v) Final product test.

The Company employ 25—30 person for quality control and it spent Rs. 4.60 lakhs on quality control during the year 1977.

1.31 According to the applicant Company, it is continously striving through its R&D work to imrpove existing methods and applications. The expenditure on R&D during the last five years is given in Table 8.

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TABLE 8

Expenditure on R&D

(Lakh Rupees) Year Capital Recurring total Percentage expenditure expenditure to total turn-over 1973 12.95 9.13 22.08 3.4 1974 10.53 21.87 32.40 3.6 1975 1.23 14.30 15.53 1.6 1976 1.25 13.35 1.3 12.10

Source: Questionnaire replies

1977

- 1.32 Among the principal achievements in the field of R&D, the following have been mentioned:—
 - (i) Milk Silos of one lakh litre capacity have been successfully designed, fabriciated, erected and commissioned for Kurla Dairy, Bombay.

1.20

17.72

18.92

1.8

- (ii) Instantaneous package milk chilling unit has been developed;
- (iii) Softy icecream machine was designed, developed and commissioned with a capacity of 20 litres of ready made soft ice-cream per hour.
- (iv) Bowsers were engineered, fabricated and supplied to Indian Air Lines for fresh water and toilet cart services.
- (v) An improved design was developed for integral tanker which eliminated the need for chassis, incorporated self steering spread axle and increased the milk carrying capacity.
- (vi) Manufacture of plate heat exchangers was diversified from milk chilling and pasturisation into various other fileds.

It is stated that the above projects aimed to improve existing methods of operation of plants and also suggests clear-cut and definite programme in developing new technology, import substitution and indigenous input know-how and technology in areas where reliance was on imported know-how.

- 1.33 The R&D set-up of the applicant Company has been recognised by the Department of Science and Technology till 31st March, 1979 vide the Departments letter of 27th October, 1977. The letter has stated that the extension of recognition beyond 31st March, 1979 is subject to a condition that the applicant Company will comply with certain requirements during the period of recognition, which include the following:—
 - (i) The R&D unit will be provided with all necessary research/test equipments as well as routine fabrication facilities.
 - (ii) Projects relating to development of new products involving input substitution will be taken up since the present work confines mainly to adoption and absorption of imported technology and modifications thereof.
 - (iii) A separate R&D Division would be created with all the staff involved in R&D reporting to Chief of R&D, operating independently of production and other Departments.

The applicant Company proposes to strengthen the Central R&D Cell in accordance with the above conditions.

Technical Collaboration:

- 1.34 So far the applicant Company has concluded the following agreements for foreign technical collaboration:—
 - (i) Agreement with Alfa Laval AB, Sweden, for technical know-how for manufacture of milk plant equipment, farm equipment, centrifugal sprayers, plate heat exchangers and other equipment for various industrial applications. The agreement provide for (a) payment of Rs. 35,000 towards the actual cost of preparing drawings and instructions and (b) annual fee of Rs. 25,000 for a period of five years towards the cost of R&D. It expired on 31st December, 1967.
 - (ii) Agreement with Christian Burmer, Sweden, for technical know-how for bottling plants. The agreement was for five years and expired on 7th January, 1973. It provided for initial payment of 25,000 Sw. Krs and 5% royalty on annual sales turn-over.
 - (iii) Agreements with Kamas Kvarnmaskiner AB, Sweden, for technical know-how for manufacture of (a) Silos for storing grains, (b) Seed cleaning plants and (c) Cattle feed plants. These expired on 31st August, 1974, and provide for (a) Initial payments of Sw. Krs. 25000, Sw. Krs. 35000 and Sw. Krs. 25000 respectivelyfor the three items and (b) royalty payments of 4%, 5% and 4% respectively on the sales turn over of the three items.
 - (iv) With Anhydro A/S, Denmark, for technical know-how for manufacture of falling film evaporation, spray drying and flash plants for making milk powder, egg powder, instant coffee powder etc. The agreement was for five years expiring on 31st August, 1975, and provided for 5% royalty on sales turn-over.
 - (v) Agreement with Badische Mashinenfubrik GMb 4 of FGR for technical collaboration for manufacture of plant and machinery for leather tanning and finishing, approved in May, 1976. It provides for 4% royalty for a period of five years, an a lump-sum payment of D.M. 3 lakhs for technical know-how, documentation, drawings, designs, erection and commissioning.
 - (vi) Agreement with Anhydro A/S, Denmark, for technical collaboration for manufacture of additional designs for falling film evaporation, spray drying and flash drying plants, approved in November, 1976. It provides for 5% royalty for five years and engineering services fee of D. Kr. 47,9000 per plant for first five plants, D.Kr. 38,300 per plant for next five plants and Rs. 30,000 per plant for the nest 18 plants.
- 1.35 During the year 1977, Government approved import of designs and drawings by the applicant Company from Arenco-BMD for manufacture of (a) for moulding machines and shot blasting machines and (b) hydraulic presses on lump-sum payment of Rs. 6.50 lakhs and Rs. 3.50 lakhs respectively.

Exports

1.36 The applicant Company has not so for entered into any commitments relating to exports nor has it agreed to any obligations in the matter of exports. Of late, however, it has made efforts to voluntarily export its products. Its export performance during the last five years is given in Table 9.

TABLE 9

Exports

(Rupees Lakhs)

Year			o.				Value of Exports (f.o.b.)	Outstanding orders at the end of the year
1973	•		•	•			1.74	Nil
1974			•				4.03	11.81
1975	•						13.01	0.31
1976		•				•	4.12	0.03
1977				•	•		16.38	96.24

Sources:-Questionnaire replies.

Maximum exports were recorded during 1977, when they represented 1.6 per cent of its turnover. Exports by the applicant Company have been generally to the less developed countries, specially Thailand, Malaysia, Hong Kong, Taiwan, Bhutan, Nepal, Sri Lanka, Middle East, Egypt and Zambia; some exports have also been made to a few developed countries namely, Sweden, USA and Japan. Though it has exported various items of equipment, the major item of export has been storage tanks which accounted for 50% of the export earnings during the year 1977. According to rough calculations by the applicant Company, its present fob export prices are 10-20% lower than the domestic sale prices.

Foreign Exchange Expenditure:

1.37 Foreign exchange expenditure of the applicant Company during the last four years is given in the following Table.

			TA	BLE 10				
		Foreig	gn Ex	c hange L	Expenditur	e	Ru	ipees lakhs
		***************************************			1974	1975	1976	1977
I.	Imports (cif)							
	(a) Raw material .			•	24.00	98.33	60.86	22.12
	(b) Components and spares	•		•	34.34	47.36	45.91	86.02
	(c) Capital goods		•	•	0.73	6.73	0.44	• •
		5	Гота		59.07	152.42	107.21	108.14
II.	Dividends (subject to tax deduc	tion)			12.69	7.61	14.63	17.77
III.	Other expenditure in foreign currency deduction)	y (sub	ject to	tax)			
	(a) Royalty, technical fee etc.		UN	THE STATE	6.07	1.24	4.83	12.27
	(b) Interest payment .		140	1 111 1	0.05	0.05	0.06	0.03
	(c) Other expenses	- 1		O Hoz	1.51	1.02	2.02	2.28
		Тот	AL		7.63	2.31	7.09	14.58
IV.	Total foreign exchange outflow		स्य	पेव जयते	79.39	162.34	128.93	140.49

Source: Applicant company.

Foreign exchange expenditure at Rs. 140 lakhs during 1977 constituted 13 per cent of the applicant Company's turnover during the year. Most of the payments were to the foreign principals/collaborators of the applicant Company, who received Rs. 95 lakhs or 68% of the total foreign exchange expenditure during the year. Payments made by the applicant Company to its foreign principals/collaborators during the last five years are given in Table 11

TABLE 11

Payments to foreign collaborators
(subject to deduction of tax)

(Rupees Lakhs)

				Dividend	Interest, royalty, technical fee, purchase of drawings etc.	Imports of com- ponents and raw material	Total
1973	•			9.52	2.31	30.99	42.82
1974			•	12.69		15.80	28.49
1975	• .	•		7.61	· • •	50.39	58.00
1976				14.63	12.43	26.24	53.30
1977	• .		•	17.77	3.03	73.85	94.65

Source: Questionnaire replies.

Application under the MRTP Act

1.38 The applicant Company has so far submitted two applications to the Government of India, besides the present one, for approval under the MRTP Act, 1969. The first application was submitted on 19th April, 1975 under Section 21 of the Act and was for setting up of capacity for manufacture of plant, machinery and equipment for the leather tanning and finishing. The project cost was estimated at Rs. 16.50 lakhs besides the working capital requirements of Rs. 15.00 lakhs.

The proposal involved production of 15 different items of equipment and envisaged that production of 187 machines valued at Rs. 131.25 lakhs would be achieved in the fifth year of production. The applicant Company proposed to manufacture the equipment in technical collaboration with M/s. BADISCHE MASCHI-NENFABRIK GMBH of West Germany. The foreign Investment Board had approved the collaboration proposals, except for one item, namely, drum fittings, which was being manufactured in small scale sector. The Department of Company Affairs passed orders on 5th April, 1976 approving the proposal except for the manufacture of drum fittings. The approved proposal covered production of 127 machines valued at Rs 128.25 lakhs in the fifth year. The approval was subject of the condition that the Company would dilute its foreign equity shareholding by raising one-third of the capital cost of the project from Indian public and/or public financial institutions within a period of six months from the date of approval under the MRTP Act. It was also stated that the approval under the MRTP Act would be without prejudice to such other conditions as might be imposed under the Foreign Exchange Regulation Act, 1973.

1.39 Second application submitted on 12th June, 1975 was for approval of the proposal for manufacture of plant, machinery and equipment for the processing of tobacco and for the manufacture of tobacco products. The proposal was similar to the present proposal under enquiry by the Commission. It was proposed to achieve production in phased manner reaching the level of Rs. 240 lakhs in the fifth year. The capital cost, other than technical know-how fee, was estimated at Rs. 58.50 lakhs consisting of buildings (Rs. 5.00 lakhs) and plant and machinery (Rs. 53.50 lakhs). The working capital requirements were estimated at Rs. 30.00 lakhs.

The project was proposed to be financed through internal resources of the Company. Company had also applied to ICICI for a foreign currency loan equivalent to Rs. 32.47 lakhs for import of capital goods and prototypes.

- 1.40. The Government of India, Department of Company Affairs, passed orders on 8th June, 1976 by which the above proposal of the applicant Company was rejected. The main reason for the rejection was as follows:—
 - "The items of manufacture are not included in the list of industries open to large industrial houses/foreing majority companies. At present, there are already two units which are manufacturing the machineries proposed to be manufactured by the Company in the country. Adequate capacity already exists in the country for the manufacture of plant, machinery and equipment for the processing of tobacco and manufacture of tobacco products."
- 1.41. Earlier, vide its letter of 27th December, 1974, the DGTD had registered the application of the applicant Company for manufacture of machinery for tobacco processing and tobacco products. It was noted that the capacity to be set up was for the products at Rs. 240 lakhs on the basis of maximum utilisation of plant and machinery. It was stated that the registered capacity to be reckoned would be determined after the proposal had been implemented and production had been commenced and after inspection of the applicant's factory had been carried out if necessary. However, vide its letter of 29th June, 1976 the DGTD informed the applicant Company that as a result of the decision of the Government on the application under the MRTP Act, the provisional registration granted to the applicant Company might be taken as withdrawn with immediate effect.

Financial Analysis

- 1.42 Based on balance-sheets and profit/loss statements, finances of the applicant Company for the past five years 1973-1977 have been analysed in Annexure V.
- 1.43. Total assets of the applicant Company as at the end of the year, 1977, aggregated to Rs. 985 lakhs consisting of net fixed assets of Rs. 135 lakhs (14%) and current assets of Rs. 850 lakhs (86%). With increasing prices of inventory stocks, the share of current assets in total assets has increased from time to time.

- 1.44. Capital employed by the applicant Company during the year 1977 was of the order of Rs. 599 lakhs. Nearly one-fourth of the capital was invested in fixed assets and the balance of three-fourths in the working capital. It was financed by net worth to the extent of Rs. 248 lakhs (41%) and by debt capital to the extent of Rs. 352 lakhs (59%). Compared to the year 1973, the capital employed in 1977 was higher by 42%. Overall debt equity ratio during 1977 was 1.42:1 compared to 1.21:1 in the previous year and 1.23:1 during the year, 1973. This shows that the applicant Company increased its dependence on loan capital during the year 1977.
- 1.45 Gross profits earned by the applicant Company during the year 1977, aggregated to Rs. 151 lakhs, equivalent to 25.2% of the capital employed, and 14.1% of the sales turnover. After payment of interest and after making provisions for taxation, the net profits of the applicant Company during 1977 were of the order of Rs. 39 lakhs, equivalent to 15.6% of its net worth. Data for the last five years show that the rate of return on capital employed has fluctuated between 15.9% (in 1975) and 32.0% (in 1976). But after payment of interest and corporate tax, the ratio of net profits and net worth has shown steady decline from 19.5% duing 1973 and 1974 to 15.6% during 1977.
- 1.46 Growth of the applicant Company during the 1973-1977 in terms of various financial indicators may be seen in Table 12.

TABLE 12

Rates of growth during 1973-1975

									Per cent increase
1.	Assets	•	•	. 8		•			42
2.	Capital employed		•			•		•	42
3.	Net fixed assets		•						25
4.	Net worth		•	•	VATUAT		•		31
5.	Working capital		•		THANK			•	48
6.	Borrowings	•							50
7.	Sales turnover		•					•	72
8.	Gross profits		•	•	सन्यमेव जयते .				45
9.	Profits before tax		•				•	•	45
10.	Profits after tax								7

Source: Computed from Annexure V.

It would be seen that the sales of the applicant Company during 1973-77 have grown faster (72%) than the assets or capital employed (42%). Gross profits have increased (45%) generally in tune with the increase in capital, though the net profits have shown a relative restraint (7%). Working Capital has increased at a rate (48%) wich is substantially below the rate of increase in sales turnover (72%) showing improved working capital management.

CHAPTER II

THE PROPOSAL

Pattern of Production

- 2.01. The applicant company proposes to manufacture the following types of plant, equipment and machinery for tobacco products:—
 - (i) Primary tobacco processing machinery:
 - (a) Vertical and horizontal threshing plants only threshers and classifiers; and
 - (b) Primary tobacco-cutting units.
 - (ii) Secondary tobacco making machinery:,
 - (a) Machines for making cigarettes and similar products;
 - (b) Tray filling units;
 - (c) Packaging machines and allied equipment; and
 - (d) Cellophane wrapping machines and allied equipment.
 - (iii) Band tobacco plants.

2.02 It is proposed to increase production in stages and raise output from the level of Rs. 47.4 lakhs in the first year to Rs. 240 lakhs in the fifth year when full production is expected to be reached. Number of machines of different types to be manufactured during each of the first five years and the value of such production may be seen in Table 13. This programme is at variance with the programme as originally stated at the time of filing the application; in that the production that was earlier stated to be achieved during the third year is now proposed to be achieved during fourth year of production and vice versa.

TABLE 13

Pattern of Production

		Average selling	Phased	Manuf (P	àctur lants/	ingʻ P Units)	rogram:	me		Value of pro- duction
		price (Rs. lakhs)	lst year	2nd year	3r ye		4th year	5th year		in the fifth year (Rs. lakhs)
1.	Vertical/Horizontal T reshing plants (threshe and classifiers only)	h- ers								
	(i) For G.L. Threshi	ng	3		3	6	ϵ	5	9	•
	(ii) For Cigarette Fa	· .	2	:	2	3	2	2	3	
	(iii) For Cigarillo Plan	nts	1		1	. 1.	. 1	l	1	
		3.5	6	· (6	10	9) I	3	45.5

540
TABLE 13—Contd.

		Average selling price -	Phased	Manu i (Plan	facturing ts/Units)	Program	nme	Value of produc- tion in
		Rs. lakhs	lst year	2nd year	3rd year	4th year	5th year	the fifth year (Rs. lakhs)
2.	Primary tobacco cutting plants	3.5			1	.,	3	10.5
3.	Machines for making cigarettes and similar products							
	(i) For Cigarettes .		2	2	3	3	4	• •
	(ii) For Cigarillos .		2	2	5	4	7	••
	_	5.0	4	4	8	7	11	55.0
4.	Tray filling units .	1.0	• •	• •	10	5	15	15.0
5.	Packaging machines and allied equipment .	6.0	(2.2)	25	4	4	8	48.0
6.	Cellophane Wrapping Machines for cellowrap- ping of individual ciga-				-			
	rillos	1.5		/ ··	3	3	4	6.0
7.	Band tobacco plants-	1	N 1 1 1					
	Small	16.4	1	B	1	••	• •	• •
8.	Band tobacco plants— Large	60.0		1	••	1	1	60.0
	Total No. of machines .	전	त्यम्ब जय	न 11	37	29	55	
	Value (Rs. Lakhs) .		47.4	101.0 1	23.4	160.0	240.0	

2.03 The applicant company has stated that the production of plant and machinery and equipment for the processing of tobacco and for the manufacture of tobacco products is expected to start approximately two years after all the necessary Government approvals, sanctions, licences and permissions are received.

Material Inputs

- 2.04 The applicant company has not yet worked out any details for developing new ancillaries for tobacco machinery components as well as sub-assemblies, as technical drawings and other materials for this project are yet to be received by it. The applicant company has, however, pointed out that it has always been its policy to encourage entreprenurs as well as small-scale industries by giving components as well as sub-assemblies to them. Presently, it buys approximately 15% of its requirement of components from small sector and ancillary units.
- 2.05 Data on indigenous and imported material proposed to be purchased by the applicant company for the production of tobacco machinery during the first five years are shown in Annexure VI. The data on imported material included in this statement differ from the data given along with the application in that the imports earlier proposed for the third year of production, are now proposed to be made in the fourth year, and vice versa, in accordance with the change in the production programme as stated in para 2.02. The material proposed to be purchased may broadly be categorised as follows:

- (i) Ferrous material like M.S. bars, sheets;
- (ii) Alloy steel, special alloy steel, and special alloy steel sheets, bars, flat sections etc.
- (iii) Non-ferrous material including brass/alluminium/stainless steel sheets, plates, extrusions etc.
- (iv) Castings and forgings.
- (v) Components.

The estimates of purchases, including revised data on imports for production of tobacco machinery are summarised in the following Table 14.

TABLE 14

Estimates of materials to be purchased

(Rupees Lakhs)

						,		•		` 1	•
							First year	Second year	Third year	Fourth Year	Fifth year
1.	Raw Materi	al				E	1	3			
	Domestic		•	•		E.	0.32	1.58	3.68	2.46	6.00
	Imported				•	. 66	1.14	0.70	1.55	1.77	2.39
	Spl. alloy/s	tain	ess ste	eel	•		1.00	4.00	10.50	7.00	16.00
	Total					. #	2.46	6.28	15.73	11.23	24.39
2.	Components					16		7			
	Domestic	•				. ₹	14.00	48.40	57.50	73.00	114.00
	Imported				٠.	-	3.44	7.40	3.27	6.63	4.83
	Total	•	•	•			17.44	55.80	60.77	79.63	118.83
3.	Total purc	hase	s of w	hich	imports		19.90	62.08	76.50	90.86	143.22
	•				•		4.58	8.10	4.82	8.40	7.22

Sources: The Applicant Company

^{2.06} It would be seen that material purchases during the fifth year are estimated at Rs. 143 lakhs equivalent to 60% of the value of production of tobacco machinery (Rs. 240 lakhs) in that year. Purchase of components alone will be about 50% of the value of production. Imports will be of the order of Rs. 7.22 lakhs equivalent to 3.1% of the value of production or 5.1% of the value of purchases. If special alloy steel and stainless steel are also imported, imports will total Rs. 23.22 lakhs and account for 10% of the value of production of tobacco machinery. Requirements of imports will be much larger in the initial years, being equivalent to 10% of the value of production (or 12% if special alloy/ stainless steel are imported) in the first year of production.

^{2.07} The applicant company proposes to import components for four machines, initially in the range of 5 to 20% of the value of production, which after phased production programme will be eliminated for two machines and reduced to 5% for other two machines. The programme for imports of components is shown in following Table.

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TABLE 15

Import of Components

(Percent of value of production)

					I year	II year	III year	IV year	V year
ı.	Primary tobacco cutti	ng u	nit	•	••	• •	10		••
2.	Machines for making similar products		rettes :		20	10	5	5	5
3.	Packaging machines			•		••	5	10	• •
4.	Band tobacco plants				10	10	5	5	5

Export Commitment

- 2.08 The applicant company is not prepared to undertake any export commitment as condition for approval of the proposed scheme. It has, however, entered into technical collaboration agreement with Arenco AB, Sweden, which was approved by the Government with a condition that the Company would export over of five year period its various products valued at Rs. 150 lakhs, including Rs. 35 lakhs worth tobacco machinery. The applicant Company has now informed the Commission in the following words regarding the export commitment of Rs. 35 lakhs undertaken earlier:—
 - "We are prepared to consider exporting tobacco machinery and their components of a total value of Rs. 3.5 million over a period of five years with the assistance of and in co-ordination with our collaborators provided:
 - (a) The programme of manufacture of the entire range of tobacco machinery, as proposed by us, is accepted by the Government in toto;
 - (b) There are no penalties imposed on us for failure to make such exports owing to unfavourable conditions in the international market or other factors beyond our control.

It will be necessary for us to review this export programme if the tobacco machinery manufacturing scheme as proposed by us, is curtailed or modified by the Government in any manner."

Employment

2.09 It has been stated that with full implementation of the project, the requirement of all categories of employees by the applicant company will increase by an estimated 25% over the number employed at present. The present employment has been stated at 1,111 persons.

R&D

2.10 The applicant company claims that its R & D infrastructure is adequate. It has modern equipment and testing apparatus and, as such, the proposed project can be taken up in the present set up, and technical expertise and development know-how inputs can be given immediately. It does not foresee any specific changes in the R & D set-up due to the proposed projects, though it proposes to strengthen its R & D Cell keeping in view the conditions laid down by Department of Science and Technology while granting recognition to its R & D set up.

Technical Collaboration

2.11 Applicant company has stated that the technical know-how for a complete range of tobacco machinery as proposed to be manufactured by it is available from Arenco AB, Sweden, which is a constituent of the machinery division of Swedish Match Company which holds nearly 47% of the equity capital of the applicant company. It has also been stated that Arenco AB is already well-known in complete cigarette machinery and band tobacco plants and has recently acquired Cardwell of USA, internationally known for their expertise in tobacco processing machinery which would give it access to the latest technology in tobacco threshing plants.

2.12. The applicant company has been negotiating with Arenco AB and the Government of India since 1973 for technical collaboration for the proposed scheme.

In its application of 12th March, 1973, to the Ministry of Industrial Development, it had proposed a down payment of 13.72 laks Sw. Krs. to Arenco AB for supply of know-how as follows:—

				1,000 Sw. Krs.
(i)	Verticle/Horizontal threshing machines		•	100
(ii)	Primary tobacco-cutting units	•		119
(iii)	Machines for making cigarettes and similar products		•	206
(iv)	Tray filling machines		•	59
(v)	Package machines and allied equipments			196
(vi)	Cellophane Wrapping machines and allied equipments		•	39
(vii)	Band tobacco plant and machinery	•	•	653
				1372

Besides the above lumpsum payment, it was also proposed to pay Sw. Krs. 65,333 per year for the duration of the collaboration, as a R & D contribution towards continued supply of updated know-how and research results, as also data on new developments in design and manufacture of technology.

- 2.13 The Government of India, Ministry of Heavy Industries, approved the collaboration arrangements vide its letter of 12th December, 1973 (copy at Annuxure VII). It was stated that the foreign collaborator could be paid a lumpsum of Rs. 23 lakhs in three instalments for drawings, designs and other technical documents. No payment on account of R & D was allowed. The approval subject to the following:—
 - (i) It was noted that the applicant company would go in for additional issue of Rs. 58.50 lakhs for implementing the project, the dilution of equity holding would be brought down in accordance with standard as laid down by the Government.
 - (ii) The foreign collaborator would be paid lumpsum of Rs. 23 lakhs subject to applicable Indian taxes, for drawings, designs and documentation in three instalments.
 - (iii) There would be no payment on account of R & D.
 - (iv) The approval was subject to the condition that the applicant company would export the entire range of its products at least of the value of Rs. 150 lakhs, of which the tobacco processing and cigarette-making machinery would account for at least Rs. 35 lakhs, in terms of foreign exchange over a period of five years.
- 2.14. On a subsequent discussion, the payment of Rs. 23 lakhs was restated in terms of Sw. Krs. at the rate of exchange as stipulated in the application of 12th March, 1973 of the applicant company. Vide its letter of 24th April, 1974 a copy of which is at Annexure VIII, the then Ministry of Heavy Industry permitted the lumpsum payment in three stages as follows:—

				Sw. Krs.
1.	On signing of the agreement		•	653,330
2,	On commencement of commercial production	•	•	457,331
3,	One year after commencement of commercial production	•	•	391,998
				1,502,659

It was also stated that the Government had no objection to the applicant Company 's request to its collaborator giving a definite undertaking that the applicant Company would be free to patent rights till the expiry of their life and that, manufacture the concerned items even after the expiry patent rights till the expiry of their life and that, it would be free to manufacture the concerned items even after the expiry of the collaboration agreement without having to make any additional payment even though there might be subsisting patent rights.

- 2.15 The applicant company concluded a collaboration agreement with M/s. Arenco AB on 15 th May, 1974. This agreement was taken on record by the Government Vide their letter of 12th December, 1974. This letter stated that "it may be noted by you that (i) you would obtain prior approval of the Government for payment of foreign technicians and that; (ii) you will not use foreign trade name/brand name on the product for sale in India". No further action has been taken in terms of the agreement, as the proposal is yet to be approved by the Department of Company Affairs under Sec. 21 of the Act. No payment has been made to the collaborator as per the terms as stated at Para 2.14.
- 2.16 The applicant Company has informed the Commission that "although the agreement with Arenco AB, Sweden, was signed nearly four years ago and costs have escalated since, then, we are hopeful of persuading our collaborators to accept the same lumpsum payment of Sw. Krs. 15,02,659 as know-how fee for this project".
- 2.17 Important provisions in the technical collaboration agreement are briefly as stated below:—
 - (i) The technical know-how covered by the agreement means the following information, material and documents in possession, po er or control of Arenco or any of its associates or affiliate Companies and relating to pla t, machinery and equipment for the processing of tobacco and for the manufacture of tobacco products and equipment particularly "as shown in the Schedule I of the agreement".
 - (a) General Planning and manufacturing devices:
 - (b) Detailed manufacturing data including the supply of technical aid information, designs, drawings of tools, dyes, jigs and fixtures and devices concerning manufacturing techniques, quality performance, testing methods, specifications for raw materials, bought out components and finished items;
 - (c) All information and data on desings, production and development of the products and on manufacturing process, layouts and designs concerning the products;
 - (d) Working drawings, plans etc., to be supplied outside India as the applicant company may require from time to time for the manufacture and supply of the products;
 - (e) Engineering specifications and drawings of apparatus and parts of material.
 - (f) Such other technical and other information established, created, or developed and approved for standard production by Arenco and/or its associates or affiliate Companies.
 - (ii) Arenco has guaranteed that the know-how shall be such as to enable the Company to manufacture the product of standard and quality comparable to the products presently manufactured by Arenco at its plant in Sweden and elsewhere outside India;
 - (iii) The applicant Company would be provided training facilities for manufacture of the products.
 - (iv) During the period of the agreement, Arenco and its associates shall from time to time supply, impart and disclose to the applicant Company's representatives, benefits of any improved modification and research and/or development made by Arenco and its associate Companies or received from them by Third parties.
 - (v) The applicant Company shall be entitled to licence and supply the said know-how or any technical information received by it from Arenco under the agreement to any other Indian Company on terms as mutually agreed to by all the parties to the agreement and subject to the approval of the Government of India.
 - (vi) Arenco has undertaken that it shall use its best endeavours including the exercise of its rights as share-holders, or the rights of its representatives as Directors, to ensure that its

- associate Companies disclose, impart and supply or otherwise do all such acts, deeds, matters and things as may be necessary to enable Arenco to carry out the obligations under this agreement.
- (vii) The applicant Company shall be entitled to export the products to all countries other than those in which Arenco is precluded on account of its existing licensing arrangements, which include the U.K., Ireland, Canada, USA and Mexico.
- (viii) Arenco will not by itself manufacture or sell in the territory (India, Bhutan, Sikkim and Nepal) any Arenco products and /or assist any person, firm or Company in the territory in the manufacture and sale of any Arenco products.
- (ix) The agreement would be valid for a period of five years from the data of execution by both the parties or for a period of five years from the date of commencement of production provided that the duration of the agreement shall not exceed a period of eight years from the date of its execution.
- 2.18 The items covered by the agreement and included in schedule I of the agreement are as follows:—
 - (i) Vertical/Horizontal threshing plant (five models have been specified).
 - (ii) Primary tobacco-cutting units.
 - (iii) Cigarette-makers (LOF Model). Cigarillo makers (2 models).
 - (iv) Tray filling machine (LUB Model).
 - (v) Packaging machines—cigarette soft pack (REK).
 - (vi) Cellophane wrappers (2 models).
 - (vii) Band tobacco plants (DIB model).

Project Cost

- 2.19 The applicant Company proposes to expand its production facilities by addition of certain machineries to its existing shops and not by setting up entirely new workshops. It has been explained that the processes involved in the manufacture of tobacco machinery are:—
 - (i) Machining of components from bar stocks and castings as the case may be.
 - (ii) The sheet metal work and fabrication by the process of cutting, forming, welding.
- 2.20 It has been stated that the machinery installation will be done in stages and when the project is in full production in the fifth year it is expected that the capacity will be working on three shift basis. The applicant Company has stated that its exisiting facilities are generally balanced for its present requirements. The tobacco machinery programme has no bearing on any small imbalance that they exist.
 - 2.21 The applicant Company has estimated the project cost as in the following Table:—

TABLE 16
Project Cost

					.(Rupees Lak	hs)
(i) Building (ii) Plant and machin		•	•			5.00	
Indigenous .	•		•	45.50			
Imported .	-	•.	•	5.50	•		
Import duty .	. •.		•	2.50		53.50	
(iii) Technical know-l	how .	•	•			30.00	
Total		. ``		The second of th		88.50	

- 2.22 Details of the capital cost may be seen in Annexure-IX. It is stated that the project estimates were initially worked out in 1973 and reviewed and revised in 1977. The cost of some of the components have incressed since then, but the applicant Company expects that the over-all project cost would remain the same.
- 2.23 The CIF cost of the imported plant and machinery and payment of technical know-how aggregating to Rs. 35.50 lakhs in foreign exchange, will be financed by the applicant Company through free foreign exchange for which applications will be made to the concerned Government authorities in due course.
- 2.24 Beside the investment of Rs. 88.5 lakhs in the proposed projects, the applicant Company also proposes to invest Rs. 52.50 lakhs during the next three years on other projects currently under implementation i.e., leather tanning and finishing machinery (Rs. 14.5 lakhs), foundry equipment (Rs. 11.5 lakhs) and hydraulic presses (Rs. 26.50 lakhs). Phasing of the capital expenditure is estimated as in the following Table:—

TABLE 17

Phasing of capital expenditure

(Rupees Lakhs)

_	Year				For production tobacco machin	of Capital investmery other schemes unimplementation	ınder investment
978						18.0	18.0
979					23.0	11.5	46.5
980			•		30.5	23.0	46.0
					14	17 18 1 1	30.5
					88.5	52.5	141.0

2.25 The applicant company has estimated that the requirement of working capital for the proposed scheme would be Rs. 60 lakhs during the fifth year when full capacity production is likely to be achieved. The details of the working capital requirements have been furnished as in the following Table:—

TABLE 18
Estimates of Working Capital

(Rupees Lakhs)

	First year	Second year	Third year	Fourth year	Fifth year
Anticipated turn-over	47.40	101.00	123.40	160.00	240.00
Customers' outstandings—12% .	6.00	12.00	15.00	19.00	28.80
Stocks — 25%	12.00	25.00	31.00	40.00	60.00
Advances from suppliers — 3%	1.50	3.00	3.70	4.80	7.20
	19.50	40.00	49.70	63.80	96.00
Sundry creditors — 5%	2.40	5.00	6.20	8.00	12.00
Advances from customers — 10% .	4.70	10.10	12.40	16.00	24.00
Net Working Capital	12.40	24.90	31.10	39.80	60.00
Working capital as percentage of turn-ove	er 26.1	24.7	25.4	24.9	25.00

2.26 The applicant Company expects that if the proposed scheme is approved by the Government immediately, it will start making investments in 1979. Production will commence in 1980 and the full production level will be reached in the year, 1984. On these assumptions, the requirements of funds have been estimated as follows:—

TABLE 19
Requirements of Funds

(Rupees Lakhs) 1979 1982 1983 1984 Total 1980 1981 88.5 (i) Capital investment 35.0 23.0 30.5 (ii) Working Capital: 96.0 Current assets 20.5 9.5 14.5 32.0 19.5 Current liabilities 8.0 3.5 5.5 12.0 36.0 18.0 (-)11.020.0 60.0 Net working capital (-)18.030.5 12.5 6.09,0

53.5

Financing Scheme

(iii) Total

- 2.27 The applicant Company has stated that the proposed investment will be financed through the following sources:—
 - (a) Partial plough-back of profits of existing activities;
 - (b) Plough-back of profits from the tobacco project; and

17.0

(c) Bank borrowings for part-financing of working capital, well within the Tandon Committee norms.

43.0

9.0

6.0

20.0

148.5

2.28 Within the above parameters, the estimates of availability of funds from different sources have been furnished as in the following Table:—

TABLE 20
Sources of Funds

(Rupees Lakhs) 1983 1979 1980 1981 1982 1984 Total (i) Bank borrowings 7.5 7.5 5.0 4.0 12.0 36.0 (ii) Depreciation (from tobacco 6.0 9.5 13.0 11.0 9.0 7.0 55.5 project) . 36.5 22.5 (-)10.01.0 57.0 (iii) Plough-back of profit . 11.0 (-)4.053.5 43.0 6.0 9.0 20.0 148.5 17.0 TOTAL

^{2.29} It would be noted that the applicant Company expects the depreciation from the proposed scheme itself to yield Rs. 55.5 lakhs by 1984, when full production level is expected to be achieved. This will be supplemented by plough-back of profits to the extent of Rs. 57 lakhs, of which profits from the proposed scheme are expected to be of the order of Rs. 33.5 lakhs.

^{2.30} As explained in Chapter I, the applicant Company has multiproduct manufacturing facilities. Any scheme of finance for the proposed project in islolation would, therefore, be misleading. The applicant Company expects to invest large amounts on modernisation and replacement of its existing facilities, on R & D set-up, and on other projects already approved by Government.

According to the foreign equity dilution scheme submitted to the Reserve Bank of India on 13th May, 1978 the applicant Company has stated that it proposes to incur the following expenditure:—

- 2.31 As stated in paragraph 1.12, the dilution scheme submitted to the Reserve Bank will make available additional funds of Rs. 133.1 lakhs by way of the face value of the new share issues and the premium money. The applicant Company has also secured a term loan of Rs. 50 lakhs from ICICI. It has been stated that the balance of funds required for investment would be met through depreciation provisions and plough-back of profits. The ICICI Loan has been approved to meet a part of the cost of diversification scheme of the applicant Company. According to the applicant Company the broad purposes for which it asked for the loan are as follows:—
 - (a) To finance programme of replacements and rationalisation of factory equipments.
 - (b) To finance programme of research and development being undertaken by the Company.
 - (c) To reduce dependence on short term borrowings.
 - (d) Government approved diversification programmes including Tanning machinery, Foundry machinery, Hydraulic presses.
 - (e) Tobacco machinery project.

technological features

2.32 The applicant Company was asked to indicate the over-all financial scheme for the next five years. A copy of the Scheme is at Annexure-X and has been summarised in the accompanying Table 21. It would be noted that the requirements of funds during the next five years (1978-1982) would be as follows:—

(Rupees Lakhs)

Rs. 85.0 lakhs

I.	Capital Investment:								
	For the proposed scheme		•	•	•		•	88.5	
	For other schemes in progress	•	•		•			52.5	
	For replacement and modernisa	tion			•	•	•	293.5	
								434.5	
II.	Working capital		•	•	•			141.6	
III.	Repayment of public deposits	•				. •	•	20.0	_
	Total Requirements .	•	•	•	•	•	•	596.1	

TABLE 21

Overall Financial Projections

(Rupees Lakhs)

					P	rojections			
			1977 (actual)	1978	1979	1980	1981	1982	Total (1978- 82)
Sources									
(i)	Share issue		5.5	133.1		••	• •	••	133.
(ii) 1	Depreciation provision		26.3	36.0	54 .8	69.5	68.2	61.3	289.
(iii)	Plough Back								
(a)	Profit (after tax).		39.3	56.0	62.0	72.5	62.5	64.0	317.
(b)) Dividend		26.5	26.5	41.7	41.7	41.7	41.7	193.
	Net plough back .		12.7	29.5	20.3	30.8	20.8	22.3	123.
iv) P	ublic deposits		11.3	JEE S		• •			
(v) L	oans		62.9	68.9		75.0			143.9
vi) D	eferred payment .	•	4.3		SON STA	• •			
	TOTAL		123.0	267.5	75.1	175.3	89.0	83.6	690.
Ise of F	Punds			1 Milled	Ţ				
, -	apital investment		ß		77				
(a)	-	me	. (2	A FILE CO.	35.0	23.0	30.5		88.
(b)			14.1	18.0	11.5	23.0			52.
(c)	For replacement as	nd		লংগদান গ	식데				
	modernisation .	•	21.8	49.0	93.0	90.0	31.5	30.0	293.
	Total .	•	35.9	67.0	139.5	136.0	62 .0	30.0	434.
ii) No	et working capital .		70.5	52.1	14.5	39.3	20.5	15.2	141.6
ii) Re	epayment of public depo	sit	.,	20.0	••		••	••	20.0
	epayment of loan .			• •	49.5	••	6.5	38.4	94.4
iv) Re			16 6	128.4 (-	1128.4		••		
•	ash resources	•	16.6	****	/•=0	• •	• •	• •	• •

2.34 It would be noted that the requirements for replacement and inodernisation aggregating to Rs. 293.5 lakhs during the five year period would be fiananced entirely by depreciation provisions of Rs. 289.8 lakhs. The capital investment for the proposed scheme and for three other schemes under implementation add up to Rs. 141 lakhs which will be balanced more or less by the additional share money of Rs. 133 lakhs. The working capital of Rs. 141.6 lakhs will be financed mainly by plough-back of profits. The additional loan of Rs. 50 lakhs will be used partly to repay public deposits and partly to meet the balancing requirements of working capital and capital investment.

Effective Steps Taken

- 2.35 As stated in para 2.15, the applicant Company has concluded the collaboration agreement with M/s. Arenco AB on 15th May, 1974 for provision of technical know-how for manufacture of various items of tobacco processing machinery and tobacco products machinery. This agreement has also been taken on record by the Government of India. The necessary permission under the Foreign Exchange Regulations for the remittance of technical know-how fee to the foreign collaborators has also been obtained by the applicant Company.
- 2.36 According to the Ministry of Industrial Development, the Capital Goods Committee had cleared on 20th November, 1974 the import of capital goods worth Rs. 4.47 lakhs. The applicant Company has stated that the Government of India cleared a capital goods application of the Company to import certain machinery and also granted an import licence for two prototypes required for the implementation of the project. This licence was subsequently surrendered by the applicant Company in view of rejection of the proposal under the Act.
- 2.37 The manufacture of cigarette-making machinery and tobacco-processing machinery is not covered in the Schedule to the Industries (Development and Regultion) Act. An industrial licence for manufacture of these machineries is, therefore, not required. The Companies are, however, required to register the capacities with DGTD. The applicant had accordingly applied for registration with DGTD for manufacture of plant equipment and machinery for tobacco-processing and tobacco products. Such registration proposals from undertakings with more than 40% foreign equity participation are submitted to the Licencing Committee. Registration proposal of the applicant Company was accordingly considered by the Licensing Committee on 28th January, 1976 and was approved to the condition that the applicant Company gets clearance under the Act.

Justification

- 2.38 The applicant Company has justified the proposal by referring to (a) the expected growth of cigarette industry, (b) the replacement requirements of cigarette industry, (c) the need for introducing soft cup packing, (d) the export proposect of cigarillos, (e) the superiority of vertical threshing machines and (f) the need for recycling waste tobacco.
- 2.39 According to the applicant Company, world production of cigarettes has been showing an increase of about 4% per year on an average. In India during the 1960s, barring certain years, the output of cigarettes had always been on the rise. In 1964 and 1965 the output increased by over 15% over the previous year. On an average the growth of cigarette output during the 1960s worked out at 7% per annum. However, the output during the earlier years of 1970s has slumped. This, according to the applicant Company, has been mainly due to the contraction in the consumer's purchasing power brought about by inflation and successive increases in excise levies on cigarettes, leading to sharp rise in their prices. The applicant Company expects that this trend will be reversed. It has stated that "the betterment of the economic situation envisaged after the recent Government's pragmatic and determined steps taken to control inflationary trend and to push production, the per capita income is expected to rise in the years to come bringing about the increased spending, a determining factor for the increased consumption of cigarettes. The reversal of the inflationary trend during the recent past has already shown its salutary effect in the increased production/consumption of cigarettes during 1976-77". It has accordingly opined that the "above facts reveal that the demand for cigarettes will continue to increase and the total industry will grow. There may be ups and downs as have been seen in the past but the long-term growth of the tobacco and cigarette industry is as inescapable as the need for the individual consumer to relax and seek diversion. It is very much possible that in the near future the industry will only not recover its past average growth of 7% per annum but may even surpass it".

- 2.40 The applicant Company has referred to the publication "Guidelines for Industrys 1976-77" which has estimated the demand for cigarettes in 1978-79 at 100 billion pieces, for which an additional capacity of 50 billion pieces needs to be installed. In light of these estimates, the applicant Company has stated "one could resonably project the mechinery demands on the basis bringing about the additional capacity to the tune of 5,000 crore pieces by 1983, instead of 1980-81 as visualised in the guidelines. The slow-down in the implementation of the industrial licences/letters of intent during the past years is bound to pick up in the coming years in the light of improved economic situation to catch with the anticipated growth rate."
- 2.41 The requirements for machinery for cigarette industry has been estimated by the applicant Company as follows:—
 - (i) For 10 new units of 4.5 billion pieces each (total additional capacity of 45 billion cigarettes to be established over next five years) approximately Rs. 70 lakhs worth of primary machinery and Rs. 280 lakh worth of secondary machinery per year will be required up to 1983.
 - (ii) Approximately Rs. 15 lakh worth of primary equipment will be needed to be replaced every year.
 - (iii) About half of the existing cigarette production is on newly installed secondary machinery and the balance on old/slow-moving secondary machinery. Assuming that half of these machinery will be replaced during years 1979-83, machinery worth Rs. 100 lakhs would be required for such replacement each year.
 - (iv) On an average Rs. 70 lakh worth of spares will be required to maintain the secondary machinery.
 - (v) Majority of the established tobacco leaf exporting countries, which are competing with India in the world market, are exporting machine threshed tobacco. Only machine/ threshed tobacco can meet the requirements of the buyer in terms of the product quality like (a) Lamina recovery, (b) quantity of stem in lamina and lamina in stem, (c) size of stem, and (d) degradation. Assuming that 50% of the tobacco consumed by cigarette industry is taken up for green leaf threshing by 1983, it will require green leaf threshing of approximately 30 million kgs. Two plants with a capacity of 15 million kgs. have already been set up. Thus, there will be required 15 million kg new capacity of three plants of 5 million kg capacity each. Even in regard to export of unmanufactured tobacco, the world trend is towards machine threshed tobacco to ensure better quality. Assuming that about 50% of the exports (70 million kg) will be of machine-threshed variety, seven plants of 5 million kg capacity each will have to be set up. Already one plant has recently been imported for threshing. Thus, six more plants will have to be set up during the five next years. According, the total requirements of green leaf threshing plants for homemarket and for exports will be nine plants of 5 million capacity each to be set up during 1979—83.
 - (vi) The approximate value of these machines would be Rs. 65 lakhs per year.
- 2.42 On the basis of the above estimates, requirements of machinery by the cigarette industry for the next five years has been estimated as in the following Table.

TABLE 22

Annual Requirement of Tobacco Machinery during 1979-83

(Rs. Lakhs)

								Primary Machinery	Secondary Machinery
(i)	For new cigarettes	fact	ories			•	•	70	280
(ii)	For replacement			• •	•	•	•	15	100
(iii)	For spares						•	• •	70
(iv)	For green leaf thre	shin	g plai	nts	•	•	•	65	• •
					Ton	TAL		150	450

- 2.43 It is claimed that on the basis of the above requirements and taking into account supply by other domestic manufacturers, the share of Vulcan-Laval in the potential demand would be 10% (Rs. 15 lakhs) initially and 25% (Rs. 40 lakhs) in the fifth year, for primary machinery and for secondary machinery, its share should be 5% (Rs. 15 lakhs) in the first year and 25% (Rs. 110 lakhs) in the fifth year.
- 2.44 According to the applicant Company, Molins of India manufacture only one type of packing machinery i.e. shell and slide type, using card-board material. Except India and Pakistan, no other country makes use of this packer and the same is not suitable as well as acceptable in the export markets. The applicant Company intends to introduce a soft packer which, apart from being suitable for export markets, will save use of expensive board materials. Moreover this packing machine with change of certain parts can also be used to produce Flip Corner Type hard board pack which saves material as compared to the shell and slide pack, to the extent of 20—25%. The applicant Company claims that its packer machine would have versatility from hard pack to soft pack and vice versa.
- 2.45 It has been stated that at present there is no manufacturer of machinery suitable for manufacture of Cigarillos, which are exportable products. Unlike cigarettes, these products are wrapped in tobacco leaves or band instead of paper which makes them l**es**s Cigarillos have considerable export potential and the development of the industry in India needs to be encouraged by creating interest in the entrepreneurs, perhaps in small-scale sector, to instal the machines and make cigarillos for exports. The applicant Company has drawn attention to the Ranganathan Committee of 1965 which had concluded that for manufacture of good quality smoking products like Cigarillos/Cigarittos, besides the requirement of machinery, it was also necessary to have good quality cigar tobacco, both for filler and wrapper. While experimentation by Research Station of Tobacco Develoment Council has succeeded in growing such quality tobacco in West Bengal and Tamil Nadu, it is presently grown in small areas and in small quantities. Availability of machinery will give impetus to its production on large scale. Moreover, for export of any consumer product of personal taste, it is necessary to establish first a base in the home market on the basis of quality and acceptance. Applicant Company feels that once the cigarillo industry goes through this phase, there is good potential for stepping up the export market. The applicant Company has already supplied some proto-type cigarillo plants to assist the initial experimentation and test marketing of the new product in the country. According to a news item in Financial Express dated 3rd May, 1978, M/s. Kailas Tobacco Product, Nasik, has introduced a new brand of cigarillos 'Lenans' in the market. Earlier this Company had marketed Avanti Cigarillos. The Company is manufacturing these cigarillos in its factory at Aurangabad. Machinery, know-how, capital involved in production are all indigenous.
- 2.46 It is estimated that presently 15 million Kg of tobacco is consumed by cheroot and Cigar industry; and the estimated production is around 3000 million pieces, of which about 10 million pieces are cigars. Assuming that only 20% of the existing production of 3000 million pieces would be taken up for mechanisation by 1983, it will require approximately Rs. 50 lakhs worth of machinery for manufacture of 600 million Cigarillos. The applicant Company has stated that the Cigarillo machinery will be used for production of better quality cigarillos based on a particular type of tobacco which would enter different strata of the market. Therefore, this will not materially affect production of Cigars and Chertoots in the small scale sector.
- 2.47 There is considerable wastage of tobacco at present, being about 25% of tobacco leaf in the form of stem, and also 3 to 5% of dust or fines cretaed during leaf handling. These are presently used for low value products. Band tobacco plant helps in salvaging this large percentage of waste and brings out a vast saving by converting it into tobacco sheets, also known as reconstituted tobacco, or homogenised leaf tobacco, for re-use in the manufacture of tobacco products. Earlier low cost of tobacco in India did not provide attractive pay back time for the necessary capital investment in a band tobacco plant. Presently, the increasing cost of tobacco has made the investment rather attractive having a pay back time of around three years. Ar present, there are 18 units engaged in the production of cigarettes; 10 more units would come up by 1983, when the production would be around 100 million cigarettes to meet the estimated demand. Applicant Company expects that 20% of these units would venture to put up band tobacco plants to utilise the waste tobacco; it would mean that around five plants of 50/100 Kgs per hour capacity would be set up.

Average machinery required for plant would be Rs. 40 lakhs. Thus the total outlay would be Rs. 200 lakhs during the five year period.

2.48 The applicant Company has summarised the demand estimates for 1979-83 and the share of the applicant Company, if the proposal is accepted, in the following Table:—

TABLE 23

Over-all demand of tobacco machinery

(Rs. Lakhs)

				Annual potential	Share of the applic	ant Company	
		 		demand during 1978-83	First year	Fifth year	
1.	Cigarette Indsutry			•			
	(a) Primary .		•	150	15(10%)	40(25%)	
	(b) Secondary	•		450	15(5%)	110(25%)	
2.	Cigarillo industry	•		50	50	50(100%)	
3.	Band tobacco plants			40	40	40(100%)	
				690	120	240	

(Figures in brackets show per cent share of the applicant Company in the total demand.)

- 2.49 The applicant Company whas mentioned the following aspects of their proposal which according to them fulfil the criteria mentioned in Section 28 of the MRTP Act, 1969.
 - "1. The two existing manufacturers of tobacco machinery in India are M/s. John Fowler (India) Ltd., and Molins (India) Ltd. Fowler are the only manufacturers inter alia of threshing plants (primary machinery) while Molins are the only manufacturers of cigarette making machines (secondary machinery). Our entering the field of manufacture of tobacco machinery will offer an alternative to the buyers of these items and hence "act as a countervailing force to the concentration of economic power (Section 28(e)).
 - "2. Our tobacco manufacturing scheme will also ensure that technical (Section 28(d)) are effected in the trade, as our proposals are based on current and improved designs in the fields of tobacco machinery.
 - "3. At present, neither John Fowler nor Molins or any other manufacturer in India make machinery suitable for the manufacture of cigarillos and cigarittos. Cigarillos and Cigarittos were considered exportable products by the Ranganathan Committee on Export of Tobacco Manufactures, appointed by the Government of India. This Committee had emphasised in the Report submitted to the Government that in the interest of better export quality products mechanisation in cigar manufacture should be encouraged. It is estimated that even if 20% of the present production is added as an exportable surplus through machine production for quality reasons, the requirement of these items will be around 600 million pieces. This will call for establishment of a few cigarillo/cigaritto plants which will need more than about 40 makers to be installed over a period of four or five years. Our proposal covers the manufacture of such plants besides primary and secondary machinery. Our project will, therefore, contribute to the creation and stepping up of export surpluses and organise the trade "in such a way that its efficiency is progressively increased" (Section 28 (b)).
 - "4. An attractive feature of our proposal is that the production can be started in our existing factory at Poona and gradually expanded in step with demand. Hence our investments are much lower than if an entirely new undertaking were to be set up for the manufacture of such machines. This means that we are also able to offer an economic alternative to the customers who would otherwise be entirely dependent in terms of price and delivery on one manufacturer for their requirements of processing plants, and again on one other manufacturer for cigarette making and packing machinery. In other words, our project fulfils one of the important economic factors stipulated in Section 28(a) viz., "to achieve production, supply and distribution, by most efficient and economic means, of goods of such types and quantities in such volume and at such prices as will best meet the requirements of the defence of India, and overseas markets".

"5. For packing cigarettes, Molins manufacture only one packer viz. the shell and slide type packer using card-board material. This packer is neither suitable nor acceptable in the export market generally. Our range of cigarette making machinery includes machines for the manufacture of collapsible packs for cigarettes. Such machines are not being made in the country at present. The use of the modern soft pack will lead to considerable saving in the use of expensive card-board paper, the traditional but expensive raw material for cigarette packs, which is in short supply and which can, therefore, be spared for other essential purposes.

Our proposal includes the manufacture of band tobacco plants which will be introduced in the country for the first time. The band tobacco plant recovers the tobacco waste now being used for low value products and converts it into tobacco sheets for re-use in the manufacture of tobacco products, for example, the cigarette filler or wrapper sheets for cigarillos/cigarittos and cigars.

Thus, our manufacturing scheme will ensure the best use of material and "regulate the control of material resources of the community to sub-serve the common good" (Section 28(c) and (f))."

Modification of the proposal

- 2.50 During the course of discussions with the applicant Company, Commission had enquired whether (a) the applicant Company would able to sell plain cigarette making machines when the cigarette industry was changing the pattern of production in favour of filter tipped cigarettes, and (b) the applicant Company would wish to improve upon the export commitment as already accepted by it in connection with the approval of the technical collaboration arrangements with M/s. Arenco A.B. of Sweden for manufacture of the tobacco processing and tobacco products manufacturing machinery. On 8th June, 1978 the applicant Comapny informed the Commission that it was prepared to include the filter tipping machinery and to drop the tray filler and the tobacco cutting machine from their programme. It was explained that as a result of the substitution of the products there will be no change in the overall know-how fee of approximately Sw. Kr. 1.5 million for the proposed programme. Regarding the number of filter tipping machinery that the applicant Company proposed to manufacture and its phasing during first five years, as also whether that the change in the product range would necessitate change in the project cost, the applicant Company has stated that it was unable to provide any details at this stage as this idea had come up only recently. It has stated that it will have to make a fresh market study for this machine and also take up the matter with its foreign collaborators for phased programme and other details. In regard to the export obligation the applicant Company informed the Commission that it was prepared to undertake some what higher export obligation than the original export obligation to be achieved over a period of five years in following terms:—
 - "In the event of approval of our project, as proposed, in toto, our endeavour would be to export a minimum of Rs. 50 lacs worth of tobacco machinery (instead of Rs. 35 lacs agreed to earlier).
 - This will have the effect of raising our total export obligation from Rs. 1.5 crores to Rs. 1.65 crores over a period of 5 years.
 - Over and above this, we are also prepared to more than make up for shortfall, if any, in the export of tobacco machinery by adding upto one-and-half times of such shortfall to the balance of Rs. 1.15 crores".

CHAPTER III

SUPPORT AND OBJECTIONS

3.01 The comments on the proposal of the applicant Company were received by the Commission both in response to the public notice published in various newspapers on 28th February, 1978 as also in reply to the questionnaires/letters sent to various Government Departments, manufacturers of tobacco processing machinery, cigarette making machinery, and cigarettes and other parties. Based on these informations the details of support and objections to the proposal are given in the following paragraphs:

Support to the Proposal

- 3.02 The proposal has been supported by certain Government Departments as also some of the cigarette making units. The support has been mainly on the following grounds:
 - (i) The existing manufacturers of tobacco machinery namely, M/s. John Fowler India Ltd. and M/s. Molins of India Ltd. are having the monopoly in their repesective fields and are charging high prices and are also making no efforts to update their technology. The setting up of additional capacity would remove this monopoly and tone up the industry towards better efficiency and technology.
 - (ii) The band tobacco plant of capacity matching with the cigarette units would be a boon to the industry and will enable the low value dust tobacco to be reused in place of the high value tobacco leaf.
 - (iii) The packing machines proposed to be manufactured by the applicant Company would be versatile as they could pack soft up as also hard flip corner. Soft cup packing enjoys a cost advantage over the card-board packing in shells and slides. These machines would, therefore, help the industry to supply cigarettes in lower price segments.
 - 3.03 The comments of the various supporters are given below:—

(a) Directorate General of Technical Development (DGTD)

- 3.04 The proposal has been supported by the Directorate General of Tdechnical Development. The DGTD had not given any specific comments to the Commission in reply to a question-naire sent to it. It has, however, furnished its comments on the proposal which were earlier sent by it to the Department of Company Affairs. In these comments the DGTD had stated that the existing manufacturers of tobacco machinery have not tried to update their technology in accordance with the international trends. This is because the existing two manufacturers have virtual monopoly. On this ground DGTD had supported the proposal of the applicant Company and had stated "there is a need for substantial technology updating in this sophisticated field of machinery manufacture if we have to make a substantial contribution as an exporter not only of the end-products but also of machinery. As it is already known that product-wise, the two existing manufacturers in this area are having virtually a monopoly in their own areas of manufacture. Bringing of a second unit would not only bring in competition from the point of view of the price reduction/stabilisation but also will stimulate technology updating to keep our technology structure at an optimum level in comparison with the world trend".
- 3.05 DGTD had also stated that the existing manufacturers of tobacco machinery are not able to meet the supplies and are not expanding the range of their output to cater to the total requirements of cigarette industry in the country. They had stated that the following items of machinery were still being imported:
 - (i) Sophisticated packers such as HL Packers, Flow weigh conveyers.
 - (ii) Filter tip assembler.
 - (iii) Automatic cutters.
 - (iv) Cartoning machines.
 - (v) Stem Flattening Machines.
 - (vi) Exhauster.

About one-third of the imports of the above items were being made from Molins of U.K. which could have been supplied by Molins of India. DGTD have further stated "the proposal of M/s. Vulcan Laval Ltd. includes the manufacture of following items of machinery:

- (a) Green leaf tobacco processing machinery
- (b) Cigarette making machinery
- (c) Cigarette packing machinery (including collapsible packers)
- (d) Machines for making Cigarittos and Cigarillos
- (e) Band tobacco machinery."

"It is essentially in the overall interest of this industry that these machines are introduced in the programme of indigenous manufacture".

(b) Directorate of Tobacco Development

3.06 Directorate of Tobacco Development, Department of Agriculture have also supported the proposal as follows:

"It has been estimated that there is loss of about 25% from the time tobacco is harvested in the field till it is exported. Assuming 10% loss due to driage at various stages, there is still 15% physical wastage of tobacco in the from of scrap, dust etc. On an annual production of 120 mil. kg. of VFC tobacco, the scrap, waste and dust therefrom are estimated at 18 mil. kg. Besides, stem and stem bits will also be available to the extent about 10 million kg. Thus the total annual availability of waste VFC tobacco including stem and stem bits will be around 30 million Kg. There is scope for further processing this waste tobacco into homogenised tobacco sheets or flakes. The process for making homogenised tobacco sheets or flakes is rather sophisticated and indigenous technology for this purpose is not available. Therefore, advance in this field will be useful for utilizing the tobacco waste for useful purposes."

"It may be added here that at present there is only one recognised manufacturer of tobacco processing machinery in the country, while there are some small scale manufacturers without any proper Research and Development facilities. Therefore some imports of processing machinery has been allowed."

"Similarly in the field of cigarette manufacturing machinery M/s. Molins India Ltd., has so far been enjoying a virtual monopoly and there is no other recognised manufacturer of cigarette making machines in the country."

"Therefore any effort towards creating another such indigenous manufacture of tobacco processing and tobacco manufacturing machinery will be useful as it will help to utilize available technology in these fields for bettering our exports of tobacco as well as tobacco products. Since exports is an extremely competitive field, utilization of available technology is important to maintain the competitive ability of our products in the international market."

(c) Godfrey Philips

3.07 M/s. Godfrey Philips India Ltd. in reply to our questionnaire have supported the proposal stating "it is a good gesture on the part of M/s. Vulcan Laval Ltd., to come into the field of manufacturing machineries for collapsible packing. Considering the increasing trend of packing cost, the use of collapsible packing machine will be an added advantage to the industry in the near future. We fully support the proposal of Messrs. Vulcan Laval Limited for manufacturing machineries and equipments for the tobacco industry. At present, there is no second manufacturer in the country whom we can approach for a competitive price of any critical equipment. If more and more such manufactures come in the field of machine manufacturing it will be of great help to the cigarette industry."

"We have already a project in our hands for using this tobacco dust and other tobacco scraps for preparing reconstituted leaf. The technology is available with our parent organisation Messrs. Philip Morris Inc., U.S.A. However, if Messrs. Vulcan Laval Limited are able to successfully manufacture a band tobacco plant, we would be extremely interested in using this for our requirements. The savings in waste tobacco as a result of reconstituting are substantial."

- 3.08 In the public hearing on 20th May, 1978 M/s. Goldfrey Philips India Ltd. raised the following points in support of the proposal:
- "1. Tobacco Reconstituted Sheet Plant with matching capacity proposed to be fabricated by Messrs. Vulcan Laval Limited will be a boon to the industry. Apart from technical advantage and economic factors which have been outlined in our Projected Report earlier, we feel that any process that recovers waste from the production cycle for reuse is unique and needs to be encouraged and supported in the national interest."
- "2. Cigarette Making Machine.—Replacement plan of these machines could only be effective if the actual users have the option to their advantage. Without a second source of supply the benefit of competitive price, delivery poriod and technological innovations will never be derived. A regular replacement of old machineries increases the productivity, ensures economic use of input materials, ensures better quality and finally reduces cost."
- "3. Cigarette Packing Machine.—Vulcan Laval's R.E.K. packing machine is versatile—it can pack 10's soft top and 10's hard flip corner with change of parts to suit any of them. Soft cup packing enjoys a tremendous cost advantage over the card-board packing in shells and slides and hingelid packs. This is especially significant in view of soaring card-board prices. It has become a problem to maintain the price of 10's pack in shells and slides. Therefore, it is felt that R.E.K. packing machine will offer alternate type of packing at cheapter price. This will also help the Marketing to cater cigarettes in lower price segments."

(d) Golden Tobacco Company

3.09 M/s. Golden Tobacco Company have also supported the proopsal in the interest of increasing competition and have stated "Apart from new capacity required, the replacement of machinery in the existing capacity at the rate of 5% to 7% is also likely to take place. Hence yearly machinery required may be for 8700 million capacity—viz. for 4500 million new capacity and for 4200 million replacement capacity.

As there is only one manufacturing unit for the manufacture of machinery at present and by allowing one more unit to come up, the resultant competition will improve efficiency, reduce prices etc. and therefore the proposal of M/s. Vulcan Laval Ltd. should be considered favourably.

(e) Vazir Sultan Tobacco Company Ltd.

3.10 M/s. Vazir Sultan Tobacco Company Ltd. have stated that they have insufficient knowledge to comment on the viability of a project for the manufacture of machines for making Cigarillos, Cigarittos and band tobacco. They have however stated further as follows:

"However, we consider Vulcan Laval's proposal to manufacture collapsible packing and other machinery, not presently manufactured in India, to be desirable particularly if the best available technology, adapted to Indian conditions, is applied in such manufacture."

Objections

- 3.11 The objections to the proposal have also been received both in response to the public notice issued by the Commission and in replies to questionnaires/letters set by it. These are from certain Government Departments/organisations and from the existing manufacturers of tobacco machinery and the manufacturers of cigarettes. The main objections raised against the proposal are as follows:
 - (i) The existing manufacturers of machinery for tobacco processing and for tobacco products are under-utilizing their capacity for want of orders. Due to lack of demand for tobacco machinery they have undertaken diversification programmes into other fields.
 - (ii) The future of tobacco industry is uncertain due to confirmed hazards of cigarette smoking and legislative and other measures already launched against smoking. As a result, the domestic production of cigarettes as also exports of unmanufactured tobacco have remained stagnant.
 - (iii) The existing manufacturers of tobacco machinery can meet the entire requirements of the industry.
 - (iv) The proposed technology for the manufacture of tobacco machinery is quite old. 72—8 M of LJ&CA/ND/79

- (v) Setting up of the additional capacity will adversely affect the existing manufacturers of the tobacco processing machinery which are in the medium and small scale sector.
- (vi) The technical know-how fee in this case is on the high side.
- (vii) Mechanisation of the industry may result in large scale unemployment.

The comments of the various objectors are given in the following paras:

(a) Tobacco Board

- 3.12 Tobacco Board (Ministry of Commerce) had given the following comments during 1976 when the proposal of M/s. Vulcan Laval Ltd. was being considered:
 - "(i) Tobacco processing and tobacco product manufacturing machinery

 The demand for these machinery are not great and the existing capacity will, it is felt, cater to the requirements of the Industry.
 - (ii) Manufacture of machinery for making cigarillos

The reason for the existing manufacturers or indigenous expertise not manufacturing cigarillo making machinery may be the lack of demand for such machinery. Further cigarillo like Bidi is a highly labour oriented/labour intensive industry and we should rather discourage than encourage manufacture of cigarillos by machines. As regards export potential, the present demand does not justify installation of machinery to manufacture machines for making cigarillos."

(b) Molins of India

3.13 Molins of India has made the following observations in reply to the questionnaire issued by the Commission which are of the nature of the objections to the proposal of M/s. Vulcan Laval Ltd.

"There has been virtually no increase in the consumption of cigarettes in India for the last 7 years. The very low profit margins have created a shortage of cash in the cigarette companies. With the result that their expenditure on new plant and machinery has been virtually nil and their expenditure on spare parts has been kept to a minimum. This may be seen from the attached graphs. It may be noted that without the substantial exports obtained during the last 3 years the Company would have been involved in disastrous losses." "The demand from the domestic cigarette industry is far below our present capacity and even with exports we will barely be employing 50% of our total capacity. In 1977 we had to lay off 30% of our operators for 6 months."

"The exact machinery proposed to be made by Vulcan Laval is not known but if they sell machines in the range of any of the above within India our sales will be proportinately reduced. Sharing the market between suppliers will inevitably increase the unit costs of manufacture while at the same time decreasing the already low profits, or alternatively increasing prices to the home market. As far as exports are concerned they will not affect our market as, as far as is known there is not now any export market for Decoufle machinery and the Arenco Soft Packer, which would be in the same market as our recently developed Soft Packer (entirely developed by the Indian Company), is over 20 years old and we do not know of any Company in India or abroad in which it is operating."

"Though the collaboration is, we understand, with Arenco of Sweden, it is presumed that the technology for the cigarette machinery will come from the Decoufle of France which is part of Arenco. For some years Decoufle have been a long way down in the table of cigarette machinery technology and have recently been up for sale. The world cigarette market is shared between Molins and Hauni of Germany. The Arenco Soft Packer, we believe, is 20 years old and is not able to match Schmerirmann, AMF, Skoda or Nipon in the world Soft Packer market."

"The entire know-how given to Molins of India from Molins of UK plus all the technical support over the last 17 years was against a down payment of £ 5,000. Rs. 30 lacs for technical know-how would appear to be a huge sum and that for out-dated technology which will certainly not be acceptable in export markets."

(c) John Fowler India Ltd.

- 3.14 M/s. John Fowler India Ltd. have stated "we strongly feel that licensing any additional capacity for the manufacture of tobacco processing machinery is not warranted as it will threaten the very survival of existing industry." The following grounds have been stated for this conclusion:
 - "(i) The future of Tobacco Industry the world over in general and India in particular, is uncertain having regard to the strong and mounting adverse medical opinion against smoking and the various restrictions being placed by Government all over the world on the sale of tobacco products. As such the requirement of machines will also be contrespondingly affected.
 - (ii) We enjoy the full confidence of the present users of the equipment in India such as I.T.C. Limited, Golden Tobacco Co. Ltd., Godfrey Philips (I) Ltd., Vazir Sultan Tobacco Co. Ltd., etc. and are in a position to cater to the requirements over the entire range of the Primary Department of Cigarette Making factories.
 - (iii) Our capacity for production of these specialised equipment is Rs. 73 lakhs per annum. Due to lack of adequate demand for the equipment in this field there has been a severe dearth of orders for our machinery during the last three to four years.
 - (iv) We have had the benefit of Technical Collaboration in the field of manufacture of Tobacco Processing Machinery for a considerable time during which we developed the expertise and skill in respect of this specialised equipment. We have a Design & Development Department which offers recommendations to customers on detailed plant layouts as well as tailor made equipments to meet their individual requirement.
 - (v) We are currently negotiating with foreign parties, with a view to updating our technology in respect of certain specialised equipments, for outright purchases of drawings/know-how as such arrangement will enable us to serve our customers to international standards.
 - (vi) We have recently, with our own resources and expertise, installed and commissioned a sophisticated Green Leaf Threshing Plant of 10,000 lbs/hour capacity involving the latest technology in the field. The equipment is used for the processing of tobacco to international standard and is working to the satisfaction of both foreign and Indian buyers of the processed tobacco."
 - (vii) "The proposal of Vulcan Laval Limited, if permitted, would be prejudicial to public interest in that scarce national resources would be unduly wasted by the installation of excess capacity in the field. Further, the proposal of Vulcan Laval Limited is contrary to the declared policies of the Government and if allowed, would lead to further concentration of economic power in the hands of foreign controlled company which would lead to common detriment as large amounts by way of dividend and other accounts would be remitted to foreign countries resulting in severe drain on the limited foreign exchange reserves of the country." On the other hand, it is stated "we are a medium scale Engineering Company with a paid up Share Captial of Rs. 28 lakhs. We are not a member of any group—foreign or Indian—nor are a subsidiary of any Company."
- 3.15 Besides the above, John Fowler have also made the following remakrs in reply to two of the questions in the questionnaire:
 - "(i) The manufacture of machinery proposed by the applicant Company will result in large scale unemployment owing to the relplacement of manual labour by mechanical means. It will, therefore, be appreciated that if the proposal of Vulcan Laval is permitted the present unemployment situation will be aggravated and will thus not be in the public interest.
 - (ii) Extending appproval to an additional unit such as Vulcan Laval Ltd. for manufacture of tobacco processing machinery would be highly detrimental to us and it would virtually stifle us. As against Vulcan Laval Ltd. who are a multinational giant with over 70% non-resident holding and commanding vast resources, we are basically a Medium Scale Engineering Company who have largely built up our own Engineering skill, recources, facilities and know-how and are now in a position to cater to the entire requirements of the Primary Department of Cigarette Factories. Further we have only three non-residents as shareholders and their combined holding is only 4.93% of our paid up share capital.

Under these circumstances, when we ourselves are starved of orders and are making every effort to utilise our experience and expertise as well as services of our qualified and experienced personnel and our manufacturing facilities presently being heavily under-utilised, we are distressed to find that the proposal of a foreign based and foreign backed Company such as Vulcan Laval Limited is receiving serious consideration from the Authorities."

(d) M/s. Govind & Sons. Guntur

- 3.16 M/s. Govind & Sons, Guntur have objected to the proposal on the following grounds:
- "(1) Our annual capacity of the manufacture of Tobacco Redrying Plant and its accessories is 4 to 6 complete plants. But as there is no good demand for the Tobacco Redrying Plants and Machinery, we are receiving hardly one or two orders per annum.

Further, there is no considrable Tobacco Crop in India. The good percentage of export variety of Virginia Tobacco is produced in Andhra. Last year's Tobacco Crop was estimated to 410 million kgs. approximately throughout India. Out of which Virginia Tobacco i.e., export variety was estimated to 100 million Kgs. The rest of the varieties of tobacco consist of Bidies Tobacco, Cigar, Chewing, Hukka and snuff tobacco. These varieties of tobacco does not require redrying plant and equipment. The 100 million Kgs. of export variety tobacco was purchased by approximately 60 units throughout the country. So there are about 85 to 90 Redrying machines in all these units. The average capacity of each Redrying Machine will be 2000 Kgs. per hour and 16,000 Kgs. per shift of 8 hours. The average feeding of each machine for three months will be one million kgs. In this way many of the units were not able to purchase the Tobacco leaf as per their requirements.

Besides this, there is no appreciating demands from the buyers abroad this year.

Hence, there is no good scope for any new Tobacco Redrying Unit in the country.

Since there is no good scope to Redrying Unit, the sanctioning to any Indsutry for substantial expansion of its activities by way of manufacture of Plant, Machinery and Equipment for the processing of the tobacco products will not only prove a considerable loss to the financing agencies but also there will be definitely adverse effects to the small-scale sector already engaged in the same line, as this poor market will go into the hands of the large-scale industry. And, as such, the small-scale sector would not be able to compete with them.

- (2) Besides the indigenous market, there is a little export potential for Tobacco Redrying Machines. So, if further expansion is allowed to such products in the large-scale sector it will have adverse effects which will be contrary to the policies of the Government of India.
- (3) We are the recipients of Silver Shield Award for Import Substitution for Tobacco Redrying Plant in 1971 by Government of India. And our principal item of manufacture is Tobacco Redrying Plant, Machinery and Equipment and a number of workers are engaged in our Factory. So, any further competition frm large-scale industry will not only affect the present production of our unit but also will reduce the employment potential rendering many of the employees jobless."

(e) I.T.C. Ltd.

3.17 M/s. I.T.C. Ltd have stated that Molins of India have already the capacity and technical knowledge to manufacture cigarette-making and packing machines.

"They have also developed soft cup packing machines recently. With the slow growth of the tobacco industry in India, there would not be much scope for another manufacturer. Again, for tobacco cutting machines Molins have the capacity and technical knowledge to produce these. As far as primary manufacturing machinery is concerned, most of these can be made indigenously and we have used John Fowlers and Larsen & Toubro in India."

(f) Ramananda Pai

- 3.18 Shri S. Ramananda Pai of Bangalore, a shareholder in Molins of India Ltd., has also raised the objection against the proposal as follows:—
 - "I am a shareholder in MOLINS OF INDIA LTD., CALCUTTA which is manufacturing at present the required machinery and is under-utilisaing its capacity installed for want of

orders both in INDIA and outside wherever they can supply. In order to survive from this business predicament, it has now undertaken diversification programme into other fields without any foreign collaboration. Shares of face value of Rs. 10.00 are being now quoted till recently at Rs. 6.00 per share with 10% dividend paid 42 days after the meeting. Several other manufacturers in the line are also similarly suffering like JOHN FOWLER, and some other small-scale units. VULCAN LAVAL can utilise its resources for its existing activities itself and the leather-making machinery recently started by it."

- 3.19 In addition to the above comments, in favour of and against the proposal, comments received from other Government Departments/Organisations are as follows:—
 - 3.20 Planning Commission have started as follows:—

"Planning Commission has no specific objection for the expansion proposal with regard to technology, capacity already in existence and/or under implementation. However, M/s. Vulcan Laval Ltd. have already been issued a number of letters of intent/industrial licences which include priority areas. The Planning Commission would be interested in the progress made by the Company in the implementation of various letters of intent/industrial licences issued so far."

The Planning Commission has also added:

"However, it may be mentioned that no demand/production targets have been projected for cigarette and bidi industries during the Fifth Five Year Plan as well as in the next Five Year Plan 1978-83."

3.21 Comments received from the Government of Andhra Pradesh are as follows:

"I am directed to state that there are no units in this State fabricating machinery for manufacture of cigarettes, cigarillos. There are, however, units in small-scale sector manufacturing tobacco redrying plants, leaf conveyors, hydraulic baling presses, trowelling machines, case charges etc.

There are also small engineering workshops which cater to the minor replacement of the tobacco machinery." The State Government, however, has not offered any objection to the proposal.

- 3.22 Government of Maharashtra have commented on the proposal as follows:-
- "As per the locational policy adopted by the State Government for Pune Metropolitan Region, the expansion of the existing activities of M/s. Vulcan Laval Ltd. in the existing premises without adding in industrial area is allowed. However, the State Government would like to enter into dialogue with M/s. Vulcan Laval Limited whether it would be possible for them to locate this activity in the developing areas of the State."
- 3.23 The support as well as objections to the proposal has been on the basis of the estimates of demand for the cigarette industry and desirability of setting up of green leaf threshing plant, band tobacco plant, cigarillo/cigaritto plant and soft cup packers. The comments received from the supporters and objectors on these aspects are detailed below.

Demand Estimates

3.24 According to DGTD, no assessment has been made for the requirement of tobacco processing and cigarette making machinery. However, they have indicated the assessment for cigarette industry as made in the fifth five year plan (ending in 1978-79) and their own estimates as follows:

"According to the assessment, the requirement of cigarettes during the fifth plan has been estimated as under:—

1975-76	•	•	•	•	•	65,000	Million pcs
1976-77	•	•	•			72,000	Do.
1977-78	•	•	•			85,000	Do.
1978-79	•	•	•	•	•	1,00,000	Do.
1983-84						1.50.000	Do.

Existing capacity for cigaretles:

At present following capacity has been created/approved:

(i) Existing firms (18 Nos.) .		99,388	million pcs
(ii) New licence—holders (5 Nos.)	•	18,300	Do.
(iii) Letter of intent-holder (1 No.)		4,500	Do.
Total		1,22,188	Do.

For achieving a production of 1,00,000 million pcs by 1978-79, we should have an approved capacity of 1,50,000 million pcs. Therefore, there is a further scope to approve a capacity of about 28,000 million pcs."

"As pointed out earlier, in reality there are only 18 firms in production for a capacity of about 1,00,000 million pcs of cigarettes and for the additional capacity of 50,000 million pcs. necessary machinery would be required. Based on a premise that optimum economic capacity is 4500 million pcs, requirement for machinery investment would be around Rs. 2 crores per plant. Therefore, for ten such units, the requirement of machinery would around Rs. 20 crores. Presuming that six of new firms holding industriral licences/letters of intent are likely to implement their approvals, they would require machinery worth about Rs. 12 crores during the next five years.

"Maintenance/Modernisation/Replacement requirement of the existing 18 units would be of the order of Rs. 1 crore annually i.e., Rs. 5 crores during the next five years."

3.24-A M/s. Godfrey Philips had stated that there is no likelihood of demand for cigarettes increasing at more than 2% per annum. They, however, feel that the demand for their own grand of cigarettes will grow at higher rate.

They have stated:

"The current demand for our brands of cigarettes is approximately 7,200 million pieces for 1978.

We expect that the cigarette industry in the country will grow @2% per annum. Considering our market share, we expect the following demand for our brands during the next five years:—

1979	•		•	•	•	•	7,950 million pieces.
1980	•	•	•	•	•		8,250 million pieces.
1981	•		•	•	•		9,060 million pieces.
1982	•		•	•	•	•	9,700 million pieces.
1983		•					10,300 million pieces.

In view of the above, we shall need additional facility in our factory for both making and packing of cigarettes as balancing equipments and replacment of old equipments by installing more sophisticated, versatile and cost-saving machineries.

Creation of any additional capacity for cigarette manufacturing will be felt after about two to three years, when the existing capacity of all the cigarette units will be utilised fully."

3.25 M/s. Golden Tobacco Company have projected the demand for cigarettes at the rate of about 7% per annum. They have given the following basis for their estimates:

"Change in the social preferences especially of the younger generation due to spread of education."

"With increasing industrialisation of the rural areas, and an increase in rural income, we expect an increase in cigarette consumption."

"In other segments, with the inflation under control, the disposable income of the consumer is expected to be higher."

- 3.26 M/s. Vazir Sultan have stated the cigarette market registered a growth of approximately 6% for the five year period from 1973-74 to 1977-78. "During the last year, the volume of sales was approximately 55% of total licensed capacity of 125,000 million cigarettes. Even if the demand grows by 10% over the next five years, which seems an optimistic prediction presently, it is apparent that the licensed capacity will far exceed the demand. As such, in our opinion there does not appear to be any scope for the creation of additional capacity for the manufacture of cigarettes."
- 3.27 M/s. John Fowler (Inida) Ltd have stated that the consumption of cigarettes in India during the period 1966-1975 i.e., over a period of ten years has not registered any substantial growth. "Further, due to the confirmed hazards of cigarette-smoking and the legislative and other Governmental measures already launched against smoking, it would be reasonable to anticipate stagnation if not a sharp decline in the cigarette consumption and production in the foreseeable future."
- 3.28 M/s. Molins of India have also stated that the demand for the cigarette industry is very much limited. "There has been virtually no increase in the consumption of cigarettes in India for the last seven years". Therefore, according to Molins there is no need of permitting additional capacity for the cigarette machinery industry.

Greenleaf Threshing plants

- 3.29 Stripping or stemming of the leaf is a process by which the leaf midrib is removed. Stripping in India is mostly done by hand. According to DGTD, the cost of labour employed for hand stemming operations has been steadily growing up.
 - "With a view to reduce the stripping cost, the use of mechanised stripping process has been gaining ground and the first green lead threshing plant in the country was established in 1970. So far there are three plants for green leaf threshing. In the recent past, there has been preference from customers particularly for export-oriented projects to import machinery manufactured by M/s. Cardwel of USA who are one of the leading manuturers of such plants."
 - "The mechanised stemming of green leaf threshing (GLT) is estimated to be 20% economical than hand-stemming processing. Besides, the time factor is especially important in areas like Karnataka where due to the humid climate during the post-harvesting period, the processing of the leaf has to be completed within a shortest possible time to avoid deterioration in leaf quality. Many a time during the peak periods, non-availability of skilled labour also presents considerable problem."
 - "It may be observed from the above that there is considerable scope for improvement in quality of products and production cost. That is only possible where a competitive technology is introduced. Presently there is only one firm in the country and they have a monopoly. For two export-oriented projects, because of substantial price difference and preference for Cardwel-make machinery, imports were considered."

Tobacco Board have stated

- "A GLT plant no doubt gives a uniform stripping product which consequently has a better appeal to the foreign buyers. The GLT plant does not affect reduction in the cost of stripping. Most of the manufacturers and exporters in Andhra Pradesh and Karnataka are not having GLT plants. Their operations are essentially labour intensive. It is estimated that for a grading and stripping operation amounting to about 40,000 kg/day, nearly 5,000 women labourers are employed. A machine naturally will employ only few persons and in a country like India where unemployment is a very big problem, GLT plants may not be encouraged or favoured."
- "GLT plants may not be encouraged in our country unless the aspect of unemployment is counter-balanced by a very significant increase in productivity leading to increased foreign exchange earnings. From our information, however, such a countervailing advantage does not seem to obtain."
- "A GLT plant of threshing capacity of 90,000 kg/day employs around 1,000 people. If it is labour intensive, the total employment is about 10,000."

- "According to our information, GLT processed tobacco is essentially exported. Possibly, a limited quantity may be used in domestic manufacture of cigarettes also. But, we do not think there is a correlation between the GLT process and the domestic use of tobacco. The implications in regard to employment, quality, costing, prices, therefore, do not arise."
- 3.30 Directorate of Tobacco Development (Department of Agriculture) have stated that the manufacturers of cigarettes buy VFC leaf and other cigarette leaf in Kucha grade form and have the processing of the leaf done at their own cost. "However, in the case of exports, graded tobacco has to undergo further processing before it is fit for exports. While the option of whether tobacco goes in the form of leaf or strips is that of the foreign buyer, it is observed that with rising labour costs in most developed countries there has been decided preference on the part of the foreign buyer for stripped leaf."
 - "Guntur in Andhra Pradesh has been the principal processing centre for VFC tobacco accounting for over 25 redrying machines capable of processing and packing 75 per cent of the export leaf grown in Andhra Pradesh. However, with the extension of cultivation of Virginia to new light soils, new areas in the deep South belts of Andhra Pradesh (Kandukur and Kanigiri areas in Prakasam district and Nellore district) and Mysore, Shimoga and Chitradurg districts of Karnataka have become important producing centres for Virginia leaf. Transplantation of these tobaccos to Guntur area for marketing and processing add to the costs of manufacture and export and hence for some time past, ways and means of reducing costs have been thought of, by manufacturers, who found a part of the solution in mechanising the processing of stripping which had hitherto been done by hand. Tobacco exporters, therefore, began to locate their processing plants nearer the production centres."
 - "The installation of a Green Leaf Threshing (GLT) plant in Bangalore in 1970 by M/s. K.S. Subbaiah Pillai & Co., marked the adoption of modern technology in tobacco processing and created an alternative fast mechanical stripping facility in a few centres."
 - "This was followed by ITC's GLT plant in the same city and By M/s. Maddi Lakshmaiah & Co at Chilakaluripeta."
 - "The GLT plant combines the operations of stemming, sand cleaning and redrying and is highly capital intensive. It ensures uniformity in the quality of processed tobacco and a high standard which finds favour in international markets. While it may affect employment opportunities, the advantages of highly refined processes of processing may accrue in the form of more demand from foreign buyers. A major portion of the international trade in VFC tobacco is presently in the form of GLT processed leaf. Hence if we have to sustain and improve our exports, we should offer our product as per international standards and requirements."
 - "As mentioned above, since the GLT leaf is in increasing demand in the international markets, in the interest of our foreign trade we need to have the requisite processing infrastructure. It is difficult to qualify as to what part of our exports should be in the form of GLT and in the traditionally processed form. Because this will depend upon the requirements and preferences of the buyers abroad."
 - "GLT process is applicable to normally VFC tobacco grown in different areas. Actually the VFC tobacco grown in different parts of the country such as Karnataka, Andhra Pradesh, etc. come from the same type."
 - 3.31 Directorate of Tobacco Development have also added:-
 - "The process of stripping has been recently mechanised with the installation of a few "Green leaf threshing plants" in the country. The installation of green leaf threshing plants requires investment of heavy capital outlay which only a few large exporters can afford. However, the mechanisation of stripping operations offers great scope for bringing down the processing cost of tobacco. The economics of hand-stemming vs. mechanical stemming in a threshing plant are reported to be in favour of the latter. But large-scale mechanisation in this regard is fraught with one serious danger of reduction in the present employment potential of thousands of manual labourers now engaged by the export trade for hand-stemming operations. However, this can be offset through increased exports of unmanufactured tobacco."

- 3.32 On benefits of GLT plant, M/s. ITC Ltd have stated as follows:-
- "(i) A GLT plant permits treating and threshing separately each grade of tobacco having distinctive conditioning and threshing qualities, which help to set up the plant to suit the grades being handled resulting in improved quality of the final product. Whereas Cleaning & Classifying Plants used in the Cigarette Factories by nature of its operation do not lend itself to settings according to what is required by individual grades of tobacco as the plant is called upon to handle a blend comprising various grades together. Under the circumstances, only compromise settings could be done which do not help in getting a good quality product."
- "(ii) In a GLT plant a particular grade could be run continuously for many hours thereby giving time for the plant to settle down at the desired setting which improves the quality of the product. Whereas in a Cleaning & Classifying Plant in the Cigarette Factory by nature of the demand placed on the plant, one could run a particular blend comprising various grades of tobacco having distinct threshing qualities for hardly 2/3 hours which does not give sufficient time to do even compromise settings for producing a reasonable quality."
- "(iii) This processing is carried out so as to put up the product as specified by the export customers. By far the majority tobacco processing countries in the world put up tobacco for export in this form and in order that our product may be competitive in quality terms, we must conform to customers' specifications."
- "(iv) GLT process does reduce the cost, but the sale price for export is same as hand strips.

GLT Lamina

62 per Kg.

Hand strip

97

- 3.33 M/s. John Fowler India Ltd have stated that the present threshing facilities in the country are adequate. In this context, they have stated that "the facilities set up for threshed tobacco in the country is presently about 58 million Kgs. as follows:—

Total . 58 million Kgs.

Item (i) and (ii) have been supplied by us while Item (iii) is an imported machinery."

In addition, Premier Tobacco Packers are setting up another Threshing Plant in Andhra Pradesh and this will add about 15 million Kgs/annum to the capacity making a total of 73 million Kgs.

Out of about 72 million Kgs. of export, about 50% is hand stripped according to the buyers' stipulations; the balance available for Machine threshing is only about 36 million Kgs as against the installed capacity of 73 million Kgs. Even with a highly optimistic growth rate of 20% per annum, the demand for threshed tobacco for exports will be only 72 million Kgs. at the end of the next five years."

- 3.34 M/s. John Fowler India Ltd. is already manufacturing green leaf threshing plant. They have so far delivered two such machines. They feel they are capable of meeting all the requirements of such machines.
- 3.35 M/s. Golden Tobacco Company feel that Green leaf threshing will replace labour and have stated as follows:—

"The sophisticated machines would have a cpacity of about 3,000 Kgs/hr whereas hand-stripping average is about 20-25 Kgs/hr. This would result (rough projection as no survey has been made) in replacement of 950 workers. The machinery require about 50 workers including supervisors and technical hands."

Band Tobacco Plant

3.36 At present, there is no manufacturer of band tobacco plants in the country. DGTD feel there is a need to introduce the band tobacco plants in the country. They have stated:

"On the basis of 1 metric tonne of tobacco required for 1 million pcs of cigarretes, present internal consumption of tobacco is of the order of 60,000 metric tonnes per annum. Based on a 5% waste, there should be a loss of about 3000 metric tonnes of tobacco in the form of dust/fine particles during the tobacco leaf handling/processing. This waste if converted into band tobacco, another 3000 million pcs more cigarettes worth Rs. 30 crores may be produced which is a considerable amount. There is a need to introduce such machines, as presently no manufacturer is converting dust tobacco into band form. It is understood six enquiries from M/s. Vulcan Laval have been made for such plants by firms in Guntur, Bombay, New Delhi, Maharashtra etc. It is estimated that at least five such plants could be installed by existing manufacturers during the next five to seven years. The cost of one plant is around Rs. 40 lakhs. Therefore, it is estimated that machinery work Rs. 2 crores may be required during a period of five to seven years."

- 3.37 Directorate of Tobacco Development (Department of Agriculture) have stated that the process for making homogenised tobacco sheets or flakes is rather sophisticated and indigenous technology for this purpose is not available. Therefore, advance in this field will be useful for utilising tobacco waste for useful purposes.
- 3.38 M/s. Godfrey Philips India Ltd. are very much interested in using band tobacco plant for their requirements. According to them, the savings in waste tobacco as a result of reconstituting are substantial and any process that recovers waste from the production cycle for re-using is unique and needs to be encouraged and supported in the national interest.
- 3.39 According to M/s. Golden Tobacco Company the value of total investment required for band tobacco plant is likely to be over Rs. 1 crore. They do not feel that the plant will be viable at this stage. They have given the following two main reasons for unsuitability of band tobacco plants:—
 - "(i) The cost of tobacco in Inida is yet not very high.
 - (ii) Ethyl-cellulose which has been mentioned as a binder is not manufactured in India. It is imported and the import licences are available only to the actual users of this product in the manufacture of paints and certain allied products. Therefore, ethyl-cellulose, which is available for around \$1 per Kg in Europe commands a price of Rs. 125/Kg in India and that too is not freely available. Our requirements of ethyl-cellulose (at 5% of 900,000 Kgs) would be 45,000 Kgs and would definitely pose a problem. If an alternative binder has already been developed and is freely available at a cheap rate in India, the whole project would present a different picture."
 - 3.40 About the quality of the band tobacco, M/s. Golden Tobacco Company have stated:
 - "Compared to acutal leaf tobacco the band tobacco is thicker and denser, possessing a low filling value. The colour is darker than the leaf tobacco. Chemical composition is almost the same save for a slightly lower total ash, sand, silica and nicotine. As a filler, it is satisfactory."
 - "Band Tobacco is ideal for the manufacture of cigarillos. The technology would definitely result in the efficient manufacture of cigarillos, for which an export market exists."
- 3.41. M/s. ITC Limited have also shown some interest in the band tobacco plant and have stated
 - "There would be possible interest in the band tobacco plants for conversion of tobacco waste into sheet tobacco by the cigarette industry."
- "Approximately 3% to 5% of tobacco used is rejected in the form of dust. This varies between the five factories and depends on the type of equipment and the tobacco blend. On current production, the quantity of dust would be between 1400 to 1600 metric tonnes per year. At present, this is sold as waste tobacco, estimated at a rate between Rs. 1.50 to Rs. 1.60 per Kg. We did consider and are still considering proposals to convert this into usable tobacco but the cost of investment in such a plant is exorbitant and besides the quantities required for such a plant to be economically viable require

very much larger quantities of waste tobacco. Besides there is the problem of tobacco Excise Duty, if the plant/plants are located outside the cigarette factory premises. However, any proposal to have a plant to economically handle 100 tonnes to 300 tonnes per year located within each of our five cigarette factories most definitely merits consideration."

3.42 M/s. Vazir Sultan Tobacco Company Limited have also considered in the past setting up of band tobacco plant for the purpose of recovering dust tobacco. The idea of setting up of such a plant was, however, abandoned on the following considerations:—

"The low cost of the tobacco we use. The cost of recovery appear prima facie to be in excess of the cost of purchased tobacco."

"The major proportion of the tobacco used in manufacture of our brands of cigarettes in suncured. This tobacco tends to attract silica from the soil to which they are exposed during the course of curing. Consequently, dust tobacco resulting from our manufacturing process contains excessive sand, which, in our opinion, makes it unsuitable for conversion by the band tobacco plant".

Cigarillo/Cigaritto

- 3.43 DGTD have favoured the mechanisation of the cigar industry. They have stated "Presently we are exporting hand-made cheroots and cigars which do not fetch enough value in the export market. To examine this aspect, earlier a Committee was formed by Ministry of Commerce known as Ranganathan Committee on Export of Tobacco Manufacturers. Besides the other suggestions, the Committee has emphasised that for cigars, mechanisation should be encouraged, and cigar manufacturers, who are in the small-scale sector only, should be allowed to import machinery up to 60% of the value of foreign exchange earned through exports. The Committee has also recommended modernisation in this industry. As a result of this, imports are taking place by cigar manufacturers against REP licenses. The import during the year 1972-73 was to the tune of Rs. 15 lakhs, while in the next two years, there has been a decreasing trend. It is expected that if 20% of the present production of Cheroots and Cigars, which is 3000 million pcs (as per Indian Tobacco Bulletin of July 1974), is converted into Cigarillos and Cigarittos, the production of these products works out to 600 million pcs leaving the balance for the small-scale sector. The optimum economic activity is around 100 million pcs of Cigarillos/Cigarittos. There will be a need for at least five such plants. The machinery required for one plant is about Rs. 50 lakhs. Therefore, to set up 4 to 5 such plants, it works out to Rs. 2 crores during a period of five yeas."
- 3.44 M/s. Godfrey Philips India Ltd. stated "Although the product is not familiar one in the country, it has a tremendous export potential. As regards domestic consumption, unless Government reduces excise duty, it may not be a viable proposition to market cigarillos."
- 3.45 M/s. Golden Tobacco Company have stated "Cigarillo is a new concept to the Indian smoker. Therefore, it is not possible to predict the consumer reaction. A lot would depend on the pricing of cigarillo and excise incidence."

Collapsible packers

- 3.46 With regard to manufacture of collapsible packers, DGTD have stated "There is an increasing trend in the world market today for cigarettes in collapsible packers. Presently, such machines are not being made in the country; therefore, there is a considerable scope for manufacturing such machines. There is a possibility that we may export such machines besides meeting our own requirements. There would be a considerable saving in the card-board paper now being used for traditional packs. There is every likelihood that if such machines are made available, even existing manufacturers may like to instal such machines, as is evident from the enquiries made in the past from firms like Godfrey, ITC, JK Cigarettes, Golden Tobacco etc. It is estimated that machinery worth about Rs. 75 lakhs may be needed in the next five years."
- 3.47 M/s. Godfrey Philips India Ltd., as indicated earlier, fully supported the proposal for the manufacture of collapsible packing machines.

- 3.48 M/s. I.T.C. Ltd. have stated that they have already four such packing machines and Molins of India have also developed 10's soft cup packer and would be in a position to supply these to the industry if the demand exists. 97% of ITC's production is in card-board packing and only 3% (1,000 million per year) in soft cup.
- 3.49 M/s. Vazir Sultan would welcome the proposal to manufacture machines for collapsible packing in India. They have stated "In view of our inadequate capacity for soft cup (collapsible) packing, we have recently made extensive enquiries, in an effort to purchase more such machines. As a consequence of being unable to identify any indigenous manufacturer capable of manufacturing machines for collapsible packing, we have in fact applied for a licence to import these machines. We would, therefore welcome Vulcan Laval's proposal to manufacture machines for collapsible packing in India".
- 3.50 Molins of India have stated that they have developed soft cup packers and are able to supply these machines.



CHAPTER IV

THE INDUSTRY

4.01 The tobacco processing and tobacco products machinery industry depends on the tobacco processing industry and the tobacco products industry. According to the Planning Commission, as many as 17.07 lakh persons are employed (in 1977-78) in tobacco processing and products industry. Besides 7.50 lakh growers, 2.7 lakh wholesalers and a large number of retailers, are also employed in the tobacco and tobacco-based industries. It is, therefore, proposed to review tobacco production and tobacco products industries before discussing the tobacco products making and processing machinery industry.

I TOBACCO

4.02 India is the thrid largest producer of tobacco in the world next to the U.S.A. and China, and accounts for about 8% of the world production. In 1976-77 tobacco cultivation covered 4.32 hectares while in 1949-50 only 3.49 lakh hectares of land covered the cultivation of tobacco. Even though the tobacco crop occupies only 0.3% of the total cropped area in the country, it has a tremendous economic significance to the nation. Tobacco growing, which is highly labour intensive, is said to provide employment for about 7.50 lakh farm hands and to millions in curing, factories and the trade. Tobacco and tobacco products fetched an excise revenue of over 510 crores in 1977-78. Besides, tobacco is one of the largest agricultural commodities entering into India's export trade fetching as much as Rs. 110 crores per annum in foreign exchange. Every increase in the production of tobacco results in additional employment opportunities, increase in the excise revenue of the Government and also foreign exchange earnings. Although India is one of the largest tobacco producing countries in the world, the per capita consumption of tobacco in India is rather very low as compared to developed countries like the U.S.A., Canada, U.K., West Germany, Switzerland and Japan.

Area and Production

4.03 Tobacco grown in India is of the two distinct, botanical species namely Nicotiana tabacum and Nicotiana rustica. The largest area is under tabacum which is grown all over the country. Since Nicotiana rustica requires cooler climate, its cultivation is confined mainly to Northern and Norh Eastern States namely Uttar Pradesh, Bihar and West Bengal. The varieties developed in nicotiana rustica are used mainly for hookah, chewing and snuff purposes. The varieties of nicotiana rustica are not suitable for use in cigarettes, bidis or cigars. In Nicotiana tabacum specific varieties have been developed for use in the manufacture of cigarettes, cigars and cheroots, bidis, hookah and chewing tobacco; the most important variety is virginia tobacco which is flue-cured and used in the manufacture of cigarettes. The All India estimates of production of tobacco for the last 10 years are given in the following table:

TABLE 24

Estimates of Production of Tobacco

Quantity: Million Kg.

* * 7	Year		Nicotian	a tabacum	Nicotiana rus-	Total	
y ear			Virginia	Others	tica		
1967-68		•	105.1	236.0	27.6	368.7	
1968-69			133.3	200.3	27.4	361.0	
1969-70		•	89.9	215.6	31.6	337.1	
1970-71		•	96.2	24 0.0	25.7	361.9	
1971-72		•	139.4	255.5	24.0	418.9	
1972-73		•	120.1	230.9	21.2	372.2	
1973-74		•	159.1	282.8	20.2	462.1	
1974-75	•		99.5	246.5	17.1	363.1	
1975-76			96.8	229. 6	23.4	349.8	
1976-77			94.4	291.4	28.4	414.2	

Source: - Ministry of Agriculture & Irrigation.

- 4.04 Tobacco is grown under varied soil and climatic conditions in the country. Andhra Pradesh is the most important tobacco producing State accounting for nearly half of the all India area and production of tobacco. The virginia flue-cured tobacco which is mainly used in the manufacture of cigarettes all over the world, is grown mostly in Andhra Pradesh and as much as 50% of the total production is exported. The cultivation of virginia flue-cured tobacco which has been confined traditionally to black cotton soils is now being extended to new light soiled areas not only in Andhra Pradesh but also in the States of Karnataka, Tamil Nadu, U.P. and Gujarat. Besides, virginia flue-cured tobacco, Andhra Pradesh also produces other types of tobacco like sun cured, country or natu, white, burley etc., which are used in the manufacture of cigarettes as well as for admixture.
- 4.05 Although tobacco is cultivated practically in every State its commercial cultivation is concentrated in certain well-defined zones. The concentration of cultivation of different types of tobacco in India is as given below.

Virginia Tobacco

4.06 The cultivation of flue-cured virginia tobacco is concentrated in the coastal districts of Andhra Pradesh namely Nellore, Prakasam, Guntur, Krishna, East and West Godawari as also in Khammam and Karim-Nagar districts. As already stated, Andhra Pradesh is the most important tobacco producing state in the country and this state accounts for more than 95% of the total production of virginia tobacco. The other important flue-cured virginia tobacco producing states are Karnataka and Gujarat. Besides, Andhra Pradesh produces lanka tobacco which is used in the manufacture of cheroots.

Bidi Tobacco

4.07 The cultivation of bidi tobacco is concentrated in the Charotar area of Gujarat and Nipani area of Belgaum district in Karnataka and Kolhapur and Sangli districts in Maharashtra. Gujarat, Karnataka and Maharashtra are, therefore, the important bidi tobaco producing states in the country.

सत्यमेव जयते

Cigars and Cheroots

4.08 Andhra Pradesh and Tamilnadu are the important Cigar and cheroot tobacco producing states. To a small extent West Bengal produces Cigar wrapper tobacco.

Chewing Tobacco

- 4.09 The South Tamil Nadu area like Madurai and Coimbatore districts of the State grow chewing tobacco to a large extent. Vaishali, Samastipur and Purnia areas in Bihar, Cooch Behar and Jalpaiguri in West Bengal and Farukhabad in Uttar Pradesh are the important zones for the production of tobacco used for both hookah and chewing purposes. Annexure XI gives the type-wise production of tobacco.
- 4.10 Tobacco is raised largely under rain fed conditions. Only 21% of the all India area under tobacco crop is irrigated. The proportion of irrigated area to total area under tobacco varies from state to state—92% in Tamilnadu, 50% in U.P., 42% in Gujarat and mere 13% in Andhra Pradesh. In Orissa and West Bengal, the crop is entirely unirrigated.
- 4.11. The following table indicates the all India estimate of area and production and average yield of tobacco since 1960.

TABLE 25

Estimates of Area, Production & Average Yield of Tobacco—All India

Area:

Thousand hectares

Production:

Thousand tonnes

Average Yield:

Kg/Ha

Year			All tobac	со		Virgin	ia	Virginia
		Area	Produc- tion	Average yield	Area	Produc- tion	Average Yield	Production as % of total tobacco production
1960-61	•	401	307	766	89	70	784	22.8
1970-71		44 7	362	810	159	96	605	26.5
1971-72	•	458	419	914	173	139	804	33.2
1972-73	•	445	372	837	169	120	710	32.3
1973-74		462	462	1001	169	159	944	34.4
1974-75		381	363	954	119	100	836	27.6
1975-76		368	350	950	122	97	795	27.7
1976-77		432	414	960	143	94	662	22.7

Source: - Ministry of Agriculture and Irrigation.

- 4.12 It would be noted that area and production have fluctuated from year to year without showing any perceptible trend. The proportion of production of VFC tobacco to the total production increased from 22.8% in 1960-61 to 34.4% in 1973-74. Thereafter production of VFC tobacco has declined and its proportion to total production during 1976-77 reached the level of its proportion as in 1960-61. The relative share of rustica variety being very small (about 6% to the total area) the fluctuations in the overall area and production of tobacco have been almost wholly borne by tobaccum varieties.
- 4.13 The per hectare yeild of tobacco has also fluctuated in the range of 766-1001 Kg. per hectare over the last 10 years. The yield per hectare of tobacco obtained in India is amend the lowest in the world e.g. USA 2259 Kg, Japan 2678 Kg., Canada 2416 Kg., USSR 1669 Kg., Brazil 1153 Kg., Bulgaria 1167 Kg., Pakistan 1383 Kg. in 1975. Even within the country tobacco yields show large variations from State to State. During 1975-76 highest yield was recorded in Gujarat (1481 Kg.) followed by Tamil Nadu (1461 Kg.) and Bihar (1090 Kg.). In Andhra Pradesh and other important tobacco producing States, the yield was lower than the All India Average of 950 Kg. during the year, the lowest being 605 Kg. in Karnataka.
 - 4.14 State-wise pattern of tobacco production is shown in the following table:

TABLE 26
Estimates of Area & Production of Tobacco—State-wise

(Production in lakh tonnes) (Area in lakh hectares)

State			1973	-74	1974	- 75	1975	- 76	1976-77	
			Area	Produc- tion	Area	Produc- tion	Area	Produc- tion	Area	Produc- tion
1			2	3	4	5	6	7	8	9
Andhra Pradesh		•	2.37	2.37	1.77	1.59	1.56	1.30	1.88	1.34
Bihar .	•	•	0.13	0.06	0.09	0.07	0.11	0.12	0.16	0.13

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TABLE 26-Contd.

1		2	3	4	5	6	7	8	9
Gujarat		0.91	1.31	0.89	1.27	0.79	1.17	0.99	1.65
Karnataka .	•	0.38	0.18	0.36	0.19	0.38	0.23	0.37	0.27
Orissa .		0.15	0.12	0.15	0.11	0.17	0.11	0.15	0.10
Tamil Nadu	•	0.13	0.19	0.06	0.06	0.13	0.19	0.14	0.20
Uttar Pradesh		0.10	0.09	0.08	0.06	0.12	0.09	0.12	0.10
West Bengal		0.14	0.11	0.12	0.09	0.12	0.11	0.15	0.15
All India .		4.62	4.62	3.81	3.63	3.68	3.50	4.32	4.14

Source: - Ministry of Agriculture & Irrigation.

4.15 The above table indicates that there has been gradually a shift of area under tobacco from the major state of Andhra Pradesh to other States. Traditionally flue-cured tobacco is grown in the black soil areas in the coastal areas of Andhra Pradesh. As flue-cured tobacco grown in light soil areas has a preferential demand in the world market, the development programmes aim at extension of cultivation of flue-cured tobacco in the new light soil areas. The shift in demand in the Western Countries particularly of the E.E.C. seems to be not only towards flue-cured virginia tobacco grown in light soil but also towards green leaf threshed tobacco.

Domestic Consumption of Tobacco

4.16 The following table indicates the quantity of raw tobacco cleared for home consumption during 1966-67 to 1975-76:

TABLE 27
Unmanufactured tobacco cleared for home consumption

Year							, ,	Quantity (Million Kg.)
1966-67	•	•	•	•	•	•	•	308.9]
1967-68	•	•		•			•	331.1
1968-69		•				•		329.3 \ (Average 327.1)
1969-70		•	•				•	338.0
1970-71	•	•	•	•	•		•	328.2
1971-72	•	•		•				340.2 7
1972-73		•		•.			•	333.1
1973-74		•		•			•	329.5 \ (Average 321.7)
1974-75	•		•	•				300.7
1975-76	٠	• .	•				•	305.2

Source: Tobacco Statistics, 1976,

It would be noted that the domestic consumption of tobacco has fluctuated between 300 million kgs. (1974-75) and 340 million Kgs. (1971-72) during the last 10 years. The domestic consumption has been more or less static, average consumption during the last five years (1971-76) being 2.0% below the level in the previous five years.

Exports

4.17 During the period 1960-61 to 1976-77 exports of unmanufactured tobacco from India have varied between 44.4 million Kgs. (1961-1962) and 94.5 million Kgs. (1972-73). The value of exports ranged from Rs. 14.04 crores (1961-62) to Rs. 110.6 crores (1977-78). The year-wise data are given in the following table:

TABLE 28

Export of Tobacco

Year				Qty (Million Kg)	Value (Rs. crores)	Unit Value (Rs./Kg.)
1960-61		•		45.8]	14.61	3.19
1961-62			•	44.4	14.04	3.16
1962-63			•,	60.2 \ (Avera	ge 18.00	2.99
1963-64				63.4 58.4) 21.09	3.33
1964-65				78.2	24.38	3.12
1965-66	•			56.6)	19.58	3.46
1966-67				57.4	21.52	3.75
1967-68	•			55.4 \ (Avera	ge 34.85	6.29
1968-69				52.7 55.1	33.16	6.29
1969-70	•	•		53.6	32.71	6.10
1970-71				47.5	31.40	6.61
1971-72				57.3 संध्यमेन ज	42.25	7.37
1972-73				94.5	61.07	6.46
1973-74				78.2 (Average) 68.42	8.75
1974-75				75.0 70.5)	80.36	10.71
1975-76				74.3	93.09	12.53
1976-77				80.1	96.61	12.06
1977-78	•	•	•	75.4	110.61	14.67

Source:-Report of the National Commission on Agriculture and Tobacco Board.

It will be seen that the maximum level of exports of unmanufactured tobacco was reached in the year 1972-73 when 94.5 million kgs. were exported. Thereafter the exports have fluctuated between 75 million kgs. and 80 million kgs. each year. The long term trend shows that the exports were almost stagnant during the 1960s but have increased during the 1970s. The average level of exports during the last 5 years ending 1977-78 at 76.5 million kgs. shows an increase of nearly 40% over the average level during the second half of 1960s (1965-1970) or an annual rate of growth of 3%.

^{4.18} The unit value of exports also remained stagnant during the 1960s except for an accounting increase during 1967-68 on account of devaluation of the Rupee. However, the unit value has expanded at a fast rate since 1971, the unit value in 1977-78 being more than double the level at the beginning of the decade. The value of exports of tobacco has accordingly increased at a very fast rate showing an eight fold increase between 1960-61 to 1977-78.

⁷⁴⁻⁸ MofLJ&CA/ND/79

4.19 The destination-wise exports of tobacco are shown in the following table:

TABLE 29
Country-wise Exports

(Million Kgs.)

							1970-71	1975-76	Change
١.	EEC Total	•			•		23.50	27.38	+3.88
	(U.K.)				•			(19.11)	
	(Italy)							(2.39)	
	(Irish Rep.)							(2.07)	
	(Netherlands)		•					(1.67)	
	(Belgium)	<i>:</i>						(1.06)	
	(France)			•				(0.91)	
	(Germany-FF	kG)				*		(0.16)	
•	Eastern Europ	oe .	•				8.68	22.89	+14.21
	Other Europe	an c	ountr	ies	•	628	0.06	0.13	+0.07
	Middle East					1000	1.97	4.16	+2.19
•	South & Sout	h Ea	st A s	ia		. 63	7.74	14.72	+6.98
j.	Africa					. 1	5.33	4.90	-0.43
'.	Others				•	· d	0.25	0.09	0.16
						455	47.52	74.28	-26.76

Source: - Tobacco Statistics 1976.

Three inferences can be drawn from the above table. Firstly that the increase in exports of tobacco during 1970s has been mainly on account of increase in exports to East European Countries which were the new markets for Indian Tobacco under the bilateral trading arrangements. Secondly the European Common Market, by virtue of inclusion of U.K. the traditional destination for Indian tobacco, is the largest purchaser of Indian tobacco accounting for over 35% of the total exports. U.K. alone accounts for over 25% of total exports and the other European markets account for only small quantities. Even though FRG's import of tobacco amounts to 25% of the total import of EEC, India is not exporting any appreciable quantity to FRG, which has a preference for tobacco not only with low nicotine and tar contents but also low pesticide ratio in the leaf, such as we produce from the new light soils of India.

सन्धर्मव जयते

- 4.20 The exports of unmanufactured tobacco are subject to export duty of 20% ad valorem or 75 paise per Kg. whichever is lower. In addition, the exporters are also required to pay a cess of ½% ad valorem on all tobacco exports.
- 4.21. As India is a major tobacco producing country, imports of tobacco into the country are insignificant. However, actual users are allowed to import small quantities of high quality filler tobacco for use in manufacture for export production only. Imports are allowed only in small quantities of specific high quality filler tobacco which are not indigenously available.

Demand estimates and plan projections

4.22 The Fourth Five Year Plan (1969-1974) indicated that between 1949-50 and 1968-69 the production of tobacco had increased by 2.55% per arnum. The increase in production was achieved by 1.37% per annum increase in area and 1.87% per annum increase in productivity.

In keeping with the past trend, the Plant targeted the production of tobacco for 1973-74 at 450 million Kg., including 168 million Kg. of Virginia type, as against the base level production of 350 million Kg. in 1968-69, showing an increase of 29% over the five year period. In order to achieve this target, it was proposed to develop the exportable type of tobacco on about 28000 Hectares in the light soil areas in Andhra Pradesh, Mysore, Gujarat and Tamil Nadu and undertake intensive development programme on 125000 Hectares of Virginia tobacco. It was also proposed to supply all essential inputs and also provide training facilities for the curers.

- 4.23 The Fifth Five Year Plan (1974-1979) pointed out that during the decade 1960-61 to 1970-71 the total production of tobacco had registered decline of 1.79% per annum, though this decline was mainly on account of reduction in production of non-cigarette tobacco, the production of VFC and other cigarette tobacco having increased by 4.13% and 2.04% per annum respectively. In view of the trend in consumption of tobacco, the Fifth Five Year Plan fixed a target of 425 million Kgs. for 1978-79 (as compared to the target of 450 million Kgs. for 1973-74 fixed under the Fourth Five Year Plan). The target for VFC tobacco was fixed at 160 million Kgs. These targets suggested 15% increase in production of tobacco over the five year period.
- 4.24 It was proposed to achieve the above target by accelerating the programme of extending the cultivation of VFC tobacco to light soil areas in different States from 28,000 Hectares by end of the Fourth Plan to 78,000 Hectares by 1978-79. An intensive district programme was also proposed to be taken up in selected districts in Andhra Pradesh, Gujarat and Karnataka to cover an area of 70,000 Hectares already under cultivation of VFC. Similar programme was also proposed to be taken up in the areas producing Natu and Bidi tobacco, so as to increase the yield level by about 10%. Programme to make intensive efforts to improve the quality of tobacco produced in the traditional areas was also proposed to be taken up specially in two selected districts of Andhra Pradesh.
- 4.25 The Sixth Five Year Plan has not made any projections of demand or fixed any targets of production for tobacco for the next five years. The Directorate of Tobacco Development in the Ministry of Agriculture, and Tobacco Board, attached to the Ministry of Commerce have, however, made certain projections for production and exports of tobacco.

Projections by the Tobacco Board are as in the following table:—

TABLE 30

Projections by Tobacco Board

(Million Kg.)

Year			Internal C	onsumption	Expo	orts	Total Production		
		,	Total	VFC	Total	VFC	Total	VFC	
1977-78		•	309.0	45.6	74 .9	64.5	383.9	110.1	
1978-79			314.2	47.4	77.9	67.1	392.1	114	
1979-80		•	319.0	49.7	81.0	69.7	400.0	119.	
1980-81	•	•	323.7	52.3	84.2	72.5	407.9	124.	
1981-82		•	328.6	54.9	87.6	75.4	416.2	130.	
1982-83			333.5	57.6	91.1	78.5	424.6	136.	
cent increase			7.9	26.3	21.7	21.7	10.6	23.	

Source: -Tobacco Board.

It would be seen that according to tobacco Board the production of tobacco will increase by slightly over 10% over the next five years. Virginia tobacco production will show a faster growth of 24% mainly due to the projected 22% increase in exports as also because of increased demand by the domestic cigarette industry.

- 4.26 According to the Ministry of Agriculture and Irrigation (Directorate of Tobacco Development) "Under the Sixth Five Year Plan (1978-83), it is tentatively proposed to step up the production of tobacco from the base level estimates of 425 ml. kg. during 1977-78 to 480 mil. kg during 1982-83. The main emphasis will be on increasing the production of export-oriented flue-cured Virginia tobacco, the production of which will be stepped up from 145 mil. kg during 1977-78 to 180 mil. Kg. during 1982-83." It will be seen, these projections suggest 13.0% increase in overall production of tobacco and 24.1% increase in VFC production over the five year period; these are not far different than the estimates of Tobacco Board. However, the levels of projections by the Ministry of Agriculture and Irrigation are much higher than those by the Tobacco Board. Even the base year (1977-78) production estimates of Ministry of Agriculture and Irrigation are more than the Tobacco Board projections for 1982-83. It seems that the method of production measurement by the two authorities are different and probably Tobacco Board are taking into account dry weight of tobacco which is lower than the farm weight. The status of the projections has, however, been quantified by the Directorate of Tobacco Development as follows: "The actual demand for tobacco products depends ultimately on a numer of fiscal and social factors. The excise policy of the Government appears to be a major determinant of the order of indigenous demand for tobacco. However, the data avilable on quantity of raw tobacco cleared for domestic consumption shows that there is an increasing trend in the consumption of cigarettes and bidis in the country. In the case of all other types of tobacco like chewing, hookah, cigar and cheroct and snuff, a declining trend is observed in the data on clearance. In the export front, the trend in the international trade indicates that there is good scope for increasing the exports of VFC tobacco grown in light soil areas of the country. These factors have helped in framing the production targets for tobacco under the Sixth Plan (1978-83)."
- 4.27 Long term demand estimates for domestic consumption have been made by a working group appointed by National Commission on Agriculture. The Directorate of Tobacco Development also furnished to the National commission on Agriculture their estimates of long term domestic demand. The two sets of estimates are given below:—

TABLE 31

Long term demand estimates

(Million Kg. Dry weight)

Year					Dte. of Tobacco De- velopment				
			-			सद्यम	म्ब जयत		
1971	•						•	255.00	255.00
19 7 5	•						•	309.43	265.00
1980							•	386.77	282.00
1985								490.68	310.00
2000	•	•			•		•	1004.63	430.00

Source:-Report of the National Commission on Agriculture.

4.28 The working group of the National Commission on Agriculture estimated the demand to increase by 4.7% per annum during 1971-80 and by 4.9% per annum during 1981-2000. The estimates of the Directorate of Tobacco Development on the other hand assumed growth rate in per capita consumption of the order of 1.1% per annum during 1971-80 and 2.1% per annum during the next 20 years. The National Commission on Agriculture felt that the projections of Directorate of Tobacco Development were more realistic, is these were based on careful analysis of the trends of tobacco consumption by different varieties.

Development Programmes

4.29 In India, tobacco is predominantly an export-oriented crop and emphasis, is, therefore, laid on increasing the production of exportable types of tobacco under the development programme of the country. It is a well-known fact that increase in Indian Tobacco exports will primarily comprise flue-cured tobacco grown in light soil areas as there has been an increasing preferential demand for this type of tobacco in the international markets. Traditionally, flue-cured tobacco is grown in the

black soil areas in the coastal areas of Andhra Pradesh. In order to suit the requirements of the export trade, the development programmes of the country aim at extension of cultivation of fluescured tobacco in the new light soil areas. The Government of India sanctioned in 1966-67 a Centrally Sponsored Scheme for extension of cultivation of exportable types of tobacco to new light soil areas in Andhra Pradesh, Karnataka, Gujarat etc. The Centrally Sponsored Scheme has made impressive progress since its inception. During 1976-77 flue-cured virginia tobacco was cultivated over an area of 143 thousand ha of which the light soil acreage accounted for 58.3 thousand ha or 40% of the total. Annexure XII gives the physical targets and achievements under the Centrally Sponsored Scheme for VFC tobacco. During 1977-78 the light soil acreage under flue-cured virginia tobacco increased further to 80 thousand ha. The proportion of light soil area to total virginia area is expected to increase further with more emphasis on this programme during the Sixth Five Year Plan. The main strategy of tobacco development programme during the Sixth Five Year Plan will be continuation of the Centrally Sponsored Scheme for extension of cultivation of flue-cured tobacco to new light soilareas. For the sixth Five Year Plan, it is tentatively proposed by the Ministry of Agriculture and Irrigation (Directorate of Tobacco Devt.) to increase the total production of tobacco from 425 million kgs (base year) to 480 million kgs. during 1982-83. A net additional production of 55 million kgs. tobacco has thus been proposed. In the case of flue-cured virginia tobacco an additional production of 35 million kgs is envisaged. In order to achieve the target of production of FCV tobacco, an additional coverage of 55 thousand hectares in new light soil areas has been proposed. These are only tentative targets of production and programmes envisaged by the Ministry of Agriculture & Irrigation for the Sixth Five Year Plan. There is large potential for extensio

Prices

4.30 With a view to avoid unhealthy competition among the exporters and to maintain the parity between internal and external prices, floor prices are fixed every year for the exportable varieties of tobacco. These minimum export prices are fixed by the Government on the basis of the recommendations of the Tobacco Board, which takes into consideration for this purpose inter alia size of the new crop, carry over stocks, demand, trend of prices, average FOB unit value realisation, cost of cultivation and desirability of ensuring a fair and remunerative return to the grower consistent with need to make export prices attractive.

4.31 The wholesale price Index numbers for tobacco are given in the following table:

TABLE 31A

Index Numbers of whole-sale prices of raw tobacco

(Base 1970-71=100)

(Monthly Averages)

Year			·	January	April	July	October
1974		•		144.0	138.6	174.6	179.2
1975		•		169.0	164.3	168.5	172.4
1976				177.7	184.2	190.1	209.2
1977	•			225.7	189.7	138.1	132.8
1978	•			122.8	112.8 (March)		

Source: - Economic adviser, Ministry of Industry.

It would be seen that tobacco prices are subject to wide fluctuations, seasonal as well as from year to year.

Marketing

4.32 The tobacco marketing system in India has not kept pace with the developments in the production and exports of this commodity. Growers still continue to sell their produce at the village

sites in an ungraded or semi-graded form. In Andhra Pradesh, Virginia tobacco after flue-curing is sorted out by the growers into 7 or 8 kutcha grades based primarily on colour and leaf blemish before it is sold in the primary market. Tobacco companies comprising traders, exporters and cigarette manufacturers open their purchase depots in the pockets of concentrated production during the marketing season. The growers bring their produce to these buying points for sale. The prices offered at the buyer's platforms are based on their subjective assessment of grade and quality of the produce and are often found to be unsatisfactory by the sellers. There is no element of competition in the system. A few buyers with large resources dominate the market and influence the price trend. According to the statistics of Agmark grading (which is compulsory if tobacco is meant for export) about 2/3rds of the VFC tobacco was graded by a dozen tobacco companies, chief among them being M/s. ITC Ltd., Maddi Lakshmaiah, Nava Bharat Enterprices, Modi Venkataratanam and East India Tobacco Company. The ITC's share in the annual grading operations varies from 11% to 19% in the total.

- 4.33 Marketing of other types of tobacco is also controlled by the private trade without any Government control or supervision. Not only the growers of tobacco are not getting remunerative prices but they also do not get their sale proceeds promptly as the buyers make deferred payments. In addition, the growers are also subject to various malpractices such as unauthorised deductions and heavy marketing charges.
- 4.34 The lack or inadequacy of the requisite functional arrangements and institutional setup for marketing such as the scientific grading, auction sale, regulation of markets and marketing practices, cooperative marketing etc., is responsible for the undeveloped marketing structure. Besides, there is no official agency to come to the rescue of the growers with its support price operations in the times of crises.
- 4.35 All tobacco meant for exports are to be compulsorily graded as per agmark specifications. Tobacco meant for internal comsumption need not be graded as per Agmark. At the primary level, therefore, the growers do not follow any well-defined scientific or standard grading. This leads to their realising lower prices. In the case of VFC tobacco, the exporters have to regrade the produce at their level. It is only in the case of Virginia tobacco grown in the light soil areas that a standard grading is followed. Similarly there is no progress with regard to the auction sale of tobacco by regulated markets or marketing by cooperative societices. Their main handicap is the finance. Whereas there is now a scheme of grand-in-aid in the central sector for assistance to agricultural produce market committees for development of market yards for tobacco, the cooperatives remain devoid of any financial assistance from the NCDC.
- 4.36 The recently established Tobacco Board has been striving to improve the marketing system for giving a fair deal to the tobacco growers. The Board introduced certain marketing reforms during the 1977-78 season to regulate VFC tobacco marketing in Andhra Pradesh. It formulated 8 farm grades based on Agmark grades for adoption by the farmers at the primary level, notified indicative prices for three of these grades and introduced the Tobacco Leaf Purchase Voucher System which sought to ensure full payment to the growers within 150 days 50% as down payment and the balance in two instalments.

II TOBACCO PRODUCTS

Tobacco Products

4.37 Tobacco is used for manufacture of various products especially bidis, cigarettes, cigars, cheroots, snuff, for chewing and for hookah. The following Table shows the different purposes for which tobacco was cleared for home consumption during 1975-76.

TABLE 32

Tobacco cleared for home consumption during 1975-76

					Million Kg.	Per cent share
(i)	Ciga	rette tobacco				
	(a)	Flue-cured Virginia .		•	42.8	14.1
	(b)	Other cigarette tobacco	•	•	30.1	9.8
					72.9	24.0

TABLE 32-Contd.

							Million Kg.	Per cent share
(ii)	Bidi tobacco					•	105.0	34.4
(iii)	Cigar/Cheroot	(1973	3)	•			12.0	3.9
(iv)	Other uses			•			64.2	21.1
(v)	Agricultural p	urpos	es & e	destru	ction		35.5	11.6
(vi)	Stalks .						15.2	4.9
(vii)	Miscellaneous						0.4	0.1
							305.2	100.0

Source: Tobacco Board

It would be seen that bidis account for more than a third of the tobacco consumed in the country, followed by cigarette industry which consumed 24%. Cigars and cheroots accounted for less than 4%. Cigarette industry which is relevant for the proposal of the applicant Company is reviewed below. As the applicant Company also proposes to manufacture cigar-making machines, that industry is also briefly reviewed at the end.

Cigarette Industry

4.38 Cigarette industry was introduced in the country in 1906 when the first cigarette factory was set-up by India Tobacco Company Ltd. (then Imperial Tobacco Co.) at Moghyr in Bihar. The same Company, which is now named as ITC Ltd., set up four other factories between 1912 and 1942 at Bangalore, Saharanpur, Calcutta and Bombay. At present there are 19 units registered with DGTD, of which five belong to M/s. ITC Ltd., two to Golden Tobacco Company Ltd. and two to National Tobacco Company Ltd. In all, there are 13 Companies engaged in the activity.

Capacity and production

- 4.39 The total approved capacity of the 13 Companies is 103.77 billion cigarettes per annum. Some of the Companies have established excess capacity. Taking into account such excess capacity as intimated by five main companies viz. (ITC Ltd., Vazir Sultan Tobacco Co. Ltd., Godfrey Philips (I) Ltd., Golden Tobacco Co. Ltd. and International Tobacco Company Ltd.), the actual installed capacity is estimated at 122.52 billion cigarettes. Production during the year 1977 was of the order of 68.27 billion pieces, representing 56% of the actual installed capacity, and 66% of the approved installed capacity. Details of the installed capacity, production and capacity utilisation unitwise may be seen at Annexure XIII. The world production of cigarettes in 1975 is estimated at 3,775 billion pieces, of which India accounted for only 1.6%.
- 4.40 Even though there are 13 companies engaged in Cigarette-making, the capacity and production is highly concentrated in a few units. ITC Ltd., accounted for as much as 33% of the total capacity in the country and nearly half of the production in 1977. Together with three other foreign owned companies, i.e. Vazir Sultan Tobacco Co. Ltd., Godfrey Philips (I) Ltd., and National Tobacco Co. Ltd., the four accounted for 72% of capacity and 79% of production in 1977. Golden Tobacco Co. Ltd., is the only major Indian-owned Company and accounted for 13% of the installed capacity and 15% of the production of cigarettes during 1977. Thus the five main companies taken together accounted for 85% of the installed capacity and 94% of production in the Cigarette industry. The remaining eight companies are having either small capacities or are newly set-up and have not yet been able to market their products in a big way in competition with the well-established brandnames of the old and established companies.
- 4.41 Though the capacity utilisation averaged 56% for the industry, it varied widely from unit to unit. The capacity utilisation of ITC Ltd., 82%, followed by 65% by Golden Tobacco and 56% for Vazir Sultan. The new and small units faced considerable under-utilisation of installed capacity.
- 4.42 The production of cigarettes in India has fluctuated from year to year though the average rate of growth in production has shown a declining trend. On an average, the production of cigarettes increased at a relatively fast rate of over 10% per annum during the second half of 1950s, but

the rate of growth has gradually declined thereafter and was only 1.5% during the first half of 1970s (1971-75). The rate of growth has also remained low thereafter. The annual data on production is given in Annexure XIV and is summarised in the following table:

TABLE 33

Production of Cigarettes

			Average Annual Production (Billion Nos.)	Annual increase over previous average (Per cent)	Average of Annual growth rates over the five years (Per cent)
1951-55		•.	20.5	••	••
1956-60			30.8	10.1	10.2
1961-65		•	44.2	8.7	8.1
1966-70			59.1	6.8	3.1
1971-75			63.6	1.5	()0.5
1976			67.5	2.2	
1977	•	•	68.3	1.9	

Source: Computed from Annexure XIV

4.43 Per capita cigarette consumption has also shown the same trend as may be seen from the data at Annexure XV and summarised in the following table:

TABLE 34

Per Capita Consumption of Cigarettes

				THE REAL PROPERTY.		2232	Nos	Per cent increase
				 - 7	त्यमेव	जयते		
1950-51			•		•	•	60	• •
1960-61	•					•	86	(+)43
1970-71	•					٠	116	(+)35
1976-77						•	111	(—)5

Source: Computed from Annexure XV

- 4.44 Various factors are stated to be responsible for slackening in the rate of growth of demand for cigarettes in the country. Health hazard on smoking is one factor. The cigarette (Regulation & Production, Supply and Distribution) Act, 1975, was enforced in August, 1975, by which all the cigarette packets and advertisements are required to carry the health warning that "Cigarette smoking is injurious to health". Government has also been pursuing the fiscal policy by which the incidence of excise duty on cigarettes has increased at a fast rate. Revenue receipts from cigarettes increased from a low level of Rs. 8 crores in 1951-52 to Rs. 200 crores in 1971-72 and further to Rs. 400 crores in 1976-77. The incidence of excise duty in the average consumer price of cigarettes is a high as 59%.
- 4.45 As the filter tipped cigarettes are considered less hazardous to health their production has been increasing each year and according to the Directorate of Tobacco Development, it reached the level of 33% in the year 1976 from only 15% in 1973. This growth has been achieved mainly by substitution of plain cigarettes by filter tip cigarettes. The ratio of filter tipped cigarette in cigarette production, however, varies from manufacture to manufacturer, being as low as 4% in case of Golden Tobacco Company and over 45% in case of National Tobacco Company (Source: Godfrey Philips (I) Ltd.).

4.46 The long term trend shows that very costly cigarettes and very cheap cigarettes are disappear from the consumer preference range. Their ratio in the overall production has gone down continuously. It is estimated that during 1977 the production of cheap cigarettes with price ranging upto 65 P. per 10's pack was only 10.7% and of those with price in excess of Rs. 2 was 3.7%. 70% of the production was priced between 65 paise and one rupee. The data on price segmentation as furnished by Godfrey Philips (I) Ltd., is a follows:

TABLE 35

Pricing Pattern of Cigarettes

						(Per cent)
Price Range		 			1976	1977
Rs. 2.0 and above			•		3.7	3.7
Rs. 1.45—1.99 .				•	3.3	4.8
Rs. 1.01—1.44 .			•	•	16.5	10.5
Rs. 0.951.00 .				•	25.1	33.8
Rs. 0.65—0.94 .				•	36.3	36.5
Rs. 0.64—below.					15.1	10.7
			. 500	m2)	100.0	100.0

Source: Godfrey Philips (I) Ltd.

Demand estimate and growth of industry

4.47 Cigarette industry is considered as a non-priority industry. The Five-Year Plans do not incorporate any targets for cigarette industry. Administrative authorities concerned i.e. DGTD and Ministry of Industry, however, frame demand estimates for guidance of the investors and for licensing of additional capacity. 'Guidelines for Industries: 1976-77' issued by the Ministry of Industrial Development estimated the demand for cigarettes for 1978-79 at 100.0 billion pieces, for which installed capacity of 150.00 billion pieces was stated to be required. Having given the estimates, the publication stated that the capacity was already covered by licences and letters of intent, and as such, no additional capacity would be approved during the year. The publication indicates actual production of only 60 billion pieces in 1975. Thus if the estimated production of 100 billion is to be achieved 1978-79, the demand would have to grow by 66% during the three year period 1975-78, as compared to only around 2% annual rate of growth noted in the recent past.

4.48 DGTD had also been indicating targets of production for cigarette industry. According to the Note prepared by DGTD in connection with the consideration of the foreign collaboration proposal of the applicant company, the requirements of cigarettes in the Fifth Plan was shown as below:

								Billion Pieces
1975-76			•		•			65.0
1976-77			•		•		•	72.0
1977-78		•	•	•	•		•	85.0
1978-79								100.0
1983-84								150.0

The above estimates are in line with the estimates as given in the 'Guidelines for Industries: 1976-77'. As compared to the estimate of 85.00 billion for 1977-78 shown above, the actual production in 1977 was 68.3 billion.

4.49 'Guidelines for Industries: 1976-77' stated that there were 18 units in the industry with a licensed capacity of 102.59 billion pieces. With a view to achieving the targetted capacity of 150.0 billion pieces, letters of intent had already been issued to 15 parties, including six State Industrial Development Corporations, for a total capacity of 63.3 billion pieces. Some of the letters of intent

75-8 M of LJ & CA/ND/79

have since been converted into licences and some have been cancelled. According to the latest communication from DGTD, there are 9 outstanding licences/letters of intent for a total capacity of 39.6 billion pieces (as at annexure XVI) DGTD has stated that none of these proposals are being implemented, except one (M/s. G. Vinod), for which as well the extent of progress made is not known. In this context it may be noted that the two new units that were implemented recently i.e. JK Cigarettes and Asia Tobacco Company, each with a capacity of 4,500 million cigarettes are facing marketing problems and produced only 526 million and 465 million repectively in the year 1977.

4.50 It is not only the cigarette industry that is facing demand constraints but the same situation is being faced by almost all the tobacco products as may be seen from the following table showing per capita utilisation of unmanufactured tobacco in different tobacco products:

TABLE 36
Per Capital utilisation of unmanufactured tobacco in different tobacco products

(Grams)

		Cigarettes	Bidis	Cigars & Cheroots	Chewing	Hookah	Snuff	All uses
1951-52		57.0	146.0	53.7	158.4	174.0	10.7	633.1
1961-62		99.4	137.4	44.5	152.0	151.7	9.2	622.3
1971-72		128.2	164.4	26.9	111.9	95.0	8.0	557.9
1973-74	•	118.9	162.3	20.8	93.4	80.9	6.9	505.7

Source: Report of the Tobacco Excise Tariff Committee

It would be noted that during the decade 1950-1960 when cigarette industry was facing a large growth in demand, Bidi industry suffered a loss in terms of reduction in per capita consumption. Rate of growth in demand for cigarettes levelled of during 1960-1970; simultaneously there was some improvements in demand for Bidi industry. Having achieved a peak in 1971-72, both the industries have suffered reduction in demand there-after. Cigar and Cheroot industry has been facing a down trend in market demand right from the beginning and the per capital consumption in 1973-74 was only 37% of the level in 1951-52. All the other tobacco based industry namely chewing, hookah and snuff have faced a down-ward during the last two decades.

Exports

4.51 The exports of cigarettes were almost negligible till the beginning of 1960's. Only 11.8 tonnes of cigarettes valued at Rs. 1.3 lakhs were exported during the 1962-63. Exports picked up thereafter and reached a level of Rs. 119 lakhs in 1965-66. Exports again suffered a gradual decline thereafter reaching a low level of Rs. 2.7 lakhs in 1969-70. 1970s have shown improvement in exports and the highest level was reached in 1975-76 when 1380 tonnes of cigarettes valued at Rs. 340 lakhs were exported. Even this level of exports formed only 1% of the production within the country. The level of exports has gone down since 1975-76 and exports in the first half 1977-78 were of annual level of Rs. 120 lakh only. Details of exports since 1971-72 may be seen at Appendix XVII. Fluctuations in exports as represented by maxima and minima over the past two decades may be seen in the following table:

TABLE 37
Export performance-high and low levels

Qty in tons. (Value in Rs. Lakhs)

								Qty.	Value
1962-63				•		•	•	12	1.3
1965-66								1701	118.7
1969-70								28	2.7
1975-76							•	1380	339.8
1977 - 78 (April-Se p	t.)	٠	•	•	•	•	•	259	60.0

Source : DGCI & S

Machinery Mix

4.52 Most of the Secondary machines installed by cigarette units in the country are of Molins (of U.K. or India). Thus all the cigarette makers, 95% of packing machines and 80% of filter assembly attachments of ITC are of Molins. 95% of cigarette makers, and 50% of packing machines and filter assembly of Golden Tobacco are of Molins. In case of Godfrey Philips 70% of all the three types of machines are of Molins. Other brands of secondary machines used in small numbers are Hauni, Skoda and AMF. Origins of processing machines installed by cigarette industry is more dispersed. The manufacturers of processing machines generally are John Fowlers, Larson Toubro and some small manufacturers from Indian and Wokes Cardwell, Robert Legg and Clayton from abroad.

Excise Duty

4.53 Cigarettes are subject to a high rate of excise duty. Excise duty is levied at two stages at the time of production of tobacco and at the time of manufacture of cigarettes. The excise duty on flue-cured tobacco used in cigarette industry is Rs. 5.45 per kg. (Plus 5% of this duty as levied in 1978-79 budget). Cigarettes are subject to excise duty on slab basis depending on the assessable value and ranges from 150% for cigarettes whose assessable value is upto Rs. 15 per 1000, to 370% on cigarettes with assessable value in excess of Rs. 48 per 1000. (plus additional 5% of the duty introduced in 1978-79). Details of excise structure may be seen at annexure XVIII. As a result of the high rates, cigarettes contribute the largest amount in the excise duty collected from any single item. During the year 1976-77 the excise duty collection from cigarettes was of the order of Rs. 400 crores out of total excise collections of Rs. 4175 crores, or 10% of the total excise collections. The excise collections from cigarettes were merely Rs. 8 crores in 1951-52 and increased by 140% to Rs. 19 crores in 1961-62. The increase was phenomenal in the next decade when the receipt from the excise duty on cigarettes increased 10 fold to about Rs. 200 crores in 1971-72. The receipts doubled since then till 1976-77. In terms of the incidence per 1000 cigarettes, following table gives the data:

TABLE 38

Excise duty on cigarettes

Rs. 1000 cigarettes

			On tobacco	On cigarettes	Total	Index
1951-52		•	2.84	4.04	6.88	100
1961-62	•		2.49	4.80	7.29	106
1971-72			4.33	29.43	33.76	491
19 73-74			5.04	36.61	41.65	605
1976-77					58.97	857

Source: Report of the Tobacco Excise Tariff Committee & Cigarette Manufacturers Association for 1976-77.

- 4.54 It would be seen that between 1951-52 and 1976-77 the excise incidence per unit of cigarette has increased more than eight fold. According to the Cigarette Manufacturers Association, of the consumer price of 90 paise per 10s packet of cigarette, the share of excise duty is 59 paise, and only the balance of 31 paise, or 35% of consumer price, represent payment to the retailers, whole-salers and manufacturers.
- 4.55 Tobacco Excise Tariff Committee (headed by Shri V. Sivaraman) in its report submitted in April, 1975 concluded that the present relatively high excise duty on cigarettes has not reacted adversely on the volume of cigarette consumption, except temporarily in certain years. "The industry has been quite successful in passing the rising burden of excise on their customers and perhaps up to a point, to the tobacco producers as well". "In spite of some ups and downs, cigarettes, have recorded the largest measure of sustained growth" in spite of a very large increase in the incidence of excise duty borne by this industry. Committee accordingly was of the view that the present tax structure on cigarette industry may continue except for removal of certain anomaly in the detailed working of the excise structure for the industry.
- 4.56 The Committee also studies relative economics of excise duties on Bidis and Cigarettes. It pointed out that the sector of population smoking cigarettes is quite distinct from the one smoking Bidis and that these generally comprise different income groups. Cigarette smoking is more popular with the office workers being smoked by 34.4% of this section and Bidi smoking is more popular with factory workers being smoked by 42.7% of this section. This survey by the Committee showed that although there was a net marginal shift from cigarette smokers to Bidi smokers, yet as far as the new

consumers were concerned, large proportion preferred cigarettes. Moreover, Bidis were generally smoked by poorer people. 40% of Bidi smokers were in below Rs. 200 p.m. income group, whereas in case of cigarette smokers this income group comprised only 18%. Over 20% cigarette smokers were in income group of above Rs. 500 p.m. though less than 5% of Bidi smokers were in this group. Agewise, bidis were more popular among youngsters (Up to 20 years age), 42% of whom smoked bidis compared to 16% who smoked cigarettes. Moreover, whereas popularity of bidis is lower in higher age group 35% for 30 year and above group the popularity of cigarettes is the highest in the middle age-group of 21-30 years.

4.57 The survey by the Committee had shown that the average monthly expenditure per Bidi smoker was about Rs. 9.58 for 590 bidis of which contribution to the excise duty was (Rs.) 77.3 paise per month. In case of cigarettes average monthly expenditure was Rs. 23.90 (for 310 cigarettes) of which Rs. 12.50 represented contribution to the excise duty. Based on these findings, the Committee felt that from a purely fiscal point of view it may perhaps be desirable to encourage growth of cigarette with a higher revenue potential, even at the cost of Bidis. But the manufacture of Bidis is a cottage industry and employs a large number of labour force estimated at about three million, including women and children, besides a large number of persons who are employed indirectly in the cultivation and trade of raw Bidi tobacco and collection and storage and trade in Tendu leaves. Development of Bidi industry helps in reducing unemployment and provides additional employment to substantial number of under employed persons both directly and indirectly. Any induced shift from Bidi to cigarette would cause a serious disequilibrium in the matter of varietal and area-wise production of tobacco and also will have serious repercussion on the employment potential created by the Bidi industry. The Committee, therefore, recommended that excise duty on Bidi be kept as at present at a relatively low level and on cigarette at a high level to protect bidi industry. During 1976-77 the average incidence of excise duty on Bidis was estimated at Rs. 1.7per 1000 bidis compared to Rs. 59 per 1000 cigarettes on an average, and Rs. 31 per 1000 low priced cigarettes costing 50 paise and below per 10s packet.

Profitability]

4.58 The Reserve Bank of India publishes finances of large public limited companies each having paid up capital of more than Rs. 1 crore. The latest survey for the year 1975-76 shows that there were 5 such companies in the tobacco industry, which would cover all the major cigarette manufacturers in the country. Profitability of these companies during the years 1974-75 and 1975-76 analysed in the following table:—

TABLE 39

Profitability of Cigarette Industry (5 units)

							(Rs. Crores)
						1974-75	1975-76
1.	Income						
	(Net of excise duty) .	•		•		198.61	233.95
2.	Capital Employed						
	(a) Net Fixed assets		• •			24.30	28.68
	(b) Investments .					0.58	0.63
	(c) Working Capital	•		•		87.52	105.70
			TOTAL	•		112.40	135.01
3.	Sources of capital						
	(a) Net Worth .			•		60.89	75.89
	(b) Loan Capital .	•	• •	•	-	51.51	59.12
			TOTAL			112.40	135.01

TABLE 39-Contd.

				1974-75	1975-76
4.	Gross profits				
	Interest paid			5.23	6.61
	Tax provision			6.50	8.42
	Net profits	•	• •	4.88	5.35
			TOTAL	16.61	20.38
5.	Profit ratios (%)				
	(a) Gross Profits/Sales .	•		8.4	6.2
				(12.7)	(10.4)
	(b) Profit after tax/net worth	•	• •	8.0	8.1
				(14.2)	(10.2)
	(c) Dividents/Net Worth .	•	•	5.3	5.7
				(4.2)	(5.1)

N.B.—Figures in brackets represent corresponding ratios for all industries.

Source: RBI Bulletin-March 1977

4.59 It would be noted that the industry was subject to relatively low rate of return, the ratio of net profit to net worth being around 8% as compared to 14% and 10% for all the industries taken together during 1974-75 and 1975-76 respectively. As stated earlier, the small and new companies which are not covered by the above survey are facing low capacity utilisation and therefore more adverse financial situation.

Cigars

- 4.60 Cigars are made by rolling the filler tobacco with binder and then wrapper. When both ends are open, it is known as cheroot but when only one end is open, it is known as cigar. Cigar and cheroot making in India is traditionally a hand-process, carried on without any elaborate machinery. The filler forms the central core while the binder binds the filler and holds it is not shape. The wrapper leaf is wrapped over the bound filler. According to the Tobacco Excise Tariff Committee, typical cigar has been described as 85% filler, 10.5% binder and 4.5% wrapper.
- 4.61 The cigar and cheroot factories are concentrated in Madras and Madurai in Tamilnadu and in Guntur, Vijayawada, Rajhamundry, Elurur, and Varrangal in Andhra Pradesh. There are also few factories in West Bengal and Orissa.
- 4.62 Production of cigars and cheroots can be estimated by off-take of duty paid unmanufactured tobacco for production of these items. The following Table shows such clearances and also the estimated per capita consumption since 1951-52.

TABLE 40
Tobacco cleared for Cigars and Cheroots

					Clearance (M. Kgs.)	Per capita consum- ption (Gms.)
1951-52	•		•	•	19.6	53.7
1955 -5 6				•	20.8	
1961-62	•		•	. •	19.8	44.5
1965-66	•	•	•	•	16.9	, -11.0
1971-72	•			•	14.9	26.9
1973-74	•			•	12.0	20.8

Source | Report of the Tobacco Excise Tariff Committee

It would be seen that the consumption of tobacco in the form of cigars and cheroots has declined continuously and in 1973-74, it was lower than the 1951-52 level by nearly 40%. The per capita consumption was lower by over 60%. According to the Survey of manufacturers of tobacco products, as reported by the Tobacco Excise Tariff Committee, there are 2,900 producers of cigars and cheroots consuming 3.28 million Kgs. as per the following table:—

TABLE 41
Cigar and Cheroot Factories

	Area						No. of factories	Tobacco consumed (Thousand Kgs.)	Estimated cigar/cher ot production (Million)
ı.	Madras						337	956	275
2.	Madurai						107	755	234
3.	Hyderabad						13	324	172
4.	Guntur	•			•		1,664	753	243
5.	Cochin				•		578	288	136
6.	Calcutta and	Orissa		•			214	207	102
7.	West Bengal	•	•	•	•	•	2	1	Nil
				Тот	'AL	Fair	2,915	3,284	1,162

Source: Report of the Tobacco Excise Tariff Committee

- 4.63 It would be noted that the 2,900 producers of cigars and cheroots consumed 3.28 million Kgs of million tobacco and produced an estimated 1,162 million cheroots and cigars. As stated in the earlier paragraph, 12.3 million Kgs of unmanufactured tobacco were cleared during 1972-73 for manufacture of cigars and cheroots. It seems that of this, only 1/4th was used by manufacturers and the rest was used by individual smokers who rolled their own cigars and cheroots, which is quite common in some parts of Orissa, Andhra Pradesh and Tamil Nadu.
- 4.64 The Survey also showed that about 72.6% of the production of cigars and cheroots is sold under brand names. 80% of the cigars and cheroots are of cheaper varieties, value not exceeding Rs. 5.00 per thousand.
- 4.65 Cigars and cheroots were exempted from payment of excise duty from July, 1971. The duty was, however, reimposed in 1977-78 and at present this duty leviable on slab basis vis., 15% on cigars whose prices do not exceed Rs. 5/- per thousand, 50% on those with prices between Rs. 5/- and Rs. 15/ and 100% on those which are priced over Rs. 15/- per thousand.
- 4.66 Exports of cigars and cheroots have been quite low as may be seen from the following Table:

TABLE 42

Exports of Cigars and Cheroots

(Quantity in 000 Kg. (Value in 000 Rs.)

									Quantity	Value
1971-72	,					,			2.0	28.3
1972-73			•						0.2	5.3
1973-74	•-	•							0.5	10.0
1974-75	•	•			•	•	•	•	0.8	13.7
1975-76		.•	•	•	•				0. 4	3.7
1976-77		•			•				2.4	25.2

Source: DGCI & S

- 4.67 According to the report of Committee on Export of Tobacco Manufacturers (Ranganathan Committee), the exports of cigars are handicapped due to:
 - (a) High cost of manufacture on account of increasing wages and dearness allowances.
- (b) Cigar leaf produced in India is somewhat narrow with the result that the ratio of the mid-rib to lamina is rather high affecting the economy of production of cigars.
 - (c) Non-availability of raw tobacco of suitable quality.
- The Committee accordingly recommended the following steps with a view to promoting exports:—
- (i) The State Governments should take necessary action in consultation with the cigar manufacturers and encourage production of suitable existing varieties of cigar tobaccos in much larger quantities preferably in large-size farms.
- (ii) Adequate facilities should be provided to the existing Research Station by the Indian Central Tobacco Committee to extend and strengthen their development activities for growing the required quality of filler and wrapper tobacco and also for carrying out research on curing, bulking and fermentation.
- (iii) After the new varieties have been developed, an intensive programme should be undertaken to develop and increase their production in suitable areas.
- (iv) The manufacture of machine-made cigars should be encouraged and provision made for the import of requisite equipment. In this context, cigar manufacturers may be allowed to import machinery up to 60% of the value of foreign exchange earned through the export of cigars as well as unmanufactured cigar tobacco. The import of cigar making machinery should be considered on higher priority and attention should be given for importing them through Industrial Finance Corporation or ICICI.
- (v) Manufacturers of cigars may jointly set up at an appropriate site, a factory which could avail of the bonded facilities for manufacturing machine-made cigars for exports.
- (vi) Provision may be made for adequate supply to the cigar industry of imported wood cigar moulds, tobacco flavouring essences, cellulose paper and nails and hooks and hinges, as export assistance measures.
- (vii) Detailed and integrated promotional programme should be drawn-up for export of cigars to particular countries with the cooperation of the importers and dealers in those countries.
- 4.68 Government have since allowed cigar making machinery to be imported under REP licences. As would be seen from table 44, cigar machinery worth Rs. 30.32 lakes has been imported in the country during the five year period 1972-73 to 1976-77. However, there is no evidence of any mechanised cigar making unit having been set up in the country, except for two units set up as a result of prototype cigar machineries supplied by the applicant Company to two parties, as a test marketing operation.
- 4.69 It is also stated that experimentation by Research Stations of Tobacco Development Council has succeeded in growing suitable qualities of fillers and wrapper tobacco for cigar making, though these varieties are being grown in small quantities.

III. TOBACCO MACHINERY INDUSTRY

- 4.70 The manufacture of plant, machinery and equipment for processing of tobacco and for the manufacture of tobacco products is not included in the first schedule to the Industries (D&R) Act, 1951. The undertakings are, thereofre, not required to obtain licences under the said Act. The units intending to undertake these activities, however, register their capacities with the DGTD.
- 4.71 There are at present two units namely, M/s. John Fowler (India) Ltd., and M/s. Molins of India Ltd., registered with the D.G.T.D. for the manufacture of tobacco machinery. M/s. John Fowler (India) Ltd., is manufacturing primary machinery required for the processing of raw tobacco. M/s. Molins of India Ltd., is manufacturing the secondary machinery required for the making and packing of cigarettes. These units have virtually a monopoly in their respective fields.

4.72 The following Table indicates the registered/installed capacity and the production of the two units during the last five years.

TABLE 43

							(Rs.	Lakhs)
Item			Registered/ Installed capacity	1973	1974	1975	1976	1977
1. John Fowlers (India) Ltd.		73	43	73	31	9	30	
2. Molins of India Ltd	•		600	208	208	238	192	157
TOTAL .			673	251	281	269	201	187
Capacity utilisation (Per cent)	•			37.3	41.7	40.0	30.0	27.8

Source: Respective Companies.

The above would indicate that the value of production of tobacco processing and cigarette making machineries has declined during the last four years (1974-1977) by over 33%. If increase in prices is taken into account, the reduction in production in real terms would be higher. The capacity utilisation in 1977 was of the order of 28% only. The production of tobacco processing machinery by John Fowlers represented about 40% of the installed capacity, but production of secondary machinery by Molins of Indian represented only 26% of the installed capacity. Share of processing machinery in total production of tobacco machinery was only 16%.

- 4.73 In addition to the above two large-scale units registered with the DGTD, Larsen and Toubro also seems to be supplying some processing machinery, as some of the cigarette units have purchased redriers from this Company. Besides, there are a few units in small-scale sector manufacturing tobacco redrying plants, leaf conveyors, hydraulic baling presses, trowelling machines, case charges, tobacco scrap cleaning machines, auto-feeder etc. There are also small engineering workshops which cater to the minor replacement of the tobacco machinery. Data on production in small-scale sector are not available. Government of Andhra Pradesh have, however, furnished information on the small-scale unit fabricating machinery and equipment for tobacco processing in the State, which are located mainly in Guntur district, the main tobacco centre. Particulars of the units are in Annexure XIX. Their production during the years, 1975-76 and 1976-77 aggregated Rs. 11 lakhs and Rs. 8.83 lakhs respectively.
- 4.74 The import of tobacco machinery is permitted on adhoc basis, only when the item is not indigenously available. The imports have also taken place against REP licences. The actual imports of tobacco machinery during the last five years are indicated in the following Table:—

TABLE 44
Imports of Tobacco Machinery

								(Rs.	Lakhs)
Y	car					Cigar- making machinery	Cigarette- making machinery		Total
1972-73	:				•	15.65	82.22		97.87
1973-74	•		•			2.83	33.54		36.37
1974-75		•.			•	0.47	37.87		38.34
1975-76				•	•	2.68	14.11		16.79
1976-77	•					8.69	61.18		69.87

Source: Monthly Statistics of Foreign Trade of India D.G.C.I. & S.

It would be noted that the import of tobacco machinery during 1972-73 was Rs. 97.87 lakhs. The imports during the next three years have been declining. The imports during 1976-77 again increased to Rs. 69.87 lakhs. The country-wise details of the imports of machinery may be seen at Annexure XX.

4.75 Exports of cigarette machinery were worth only Rs. 2 to 5 lakhs annually till 1974-75. Exports have, however, increased over the past two years as will be seen from the following Table:-

					7	rabli	E 45		(Rs. Lakhs)
		·							Exports of cigarette machinary
-	1972-73						•	2.14	
	1973-74							5.51	
	1974-75							3.83	
	1975-76	•	•					67.88	
	1976-77			•		. •	•	51.88	(+0.19 for Cigar Machinery).

Source: Monthly statistics of Foreign Trade of India-D.G.C.I. & S.

Exports have been generally to Bangladesh, Srilanka, Neapl and Egypt. Annexure-XXI shows countrywise exports.

4.76 The details of the two large-scale units registered with the D.G.T.D. which comprise the tobacco machinery industry in the country are given in the following paras:

John Fowler (India) Ltd.

- 4.77 The Company was incorporated as a private limited Company on 22nd December, 1953 with an authorised capital of Rs.10 lakes and was named as john Folwer (India) Private Ltd., in 1956. It became a public limited Company in 1960 by virtue of the Section 43(a) of the Companys Act and its name was changed to John Folwer (India) Limited.
- 4.78 The Company was initially engaged in trading of spares and servicing of road rollers, diesel locomotives etc. It expanded its activities as follows:-
 - (i) In 1958 the Company commenced manufacture of filters and elements for and stationary internal combustion engines and also filters for industrial applications in their factory at Calcutta.
 - (ii) In 1963 the Company commenced the manufacture of tobacco processing machinery and insulating, lubricating and aviation oil filters and fuel filters at Bangalore.
 - (iii) In 1973 it commenced manufacture of finned type pressed steel radiators for supply to transformer manufacturers.
- 4.79 At present the Company has its registered office in Bombay, Head Office and main factory at Bangalore and a factory and branch office at Calcutta.
- 4.80 The Company had entered into the following collaborations for the manufacture of the above items:-
 - (i) With Vokes—Cardwell Ltd., U.K. for 10 years from 1962 for manufacture of leaf tobacco processing machineries and ancillaries and for purchase of drawings and technical know-how in respect of designs of leaf tobacco processing equipment.
 - (ii) With Stream Line Filter Ltd., U.K. for manufacture of insulating, lubricating and aviation oil filters for 10 years from 1963.

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(iii) With Vokes Ltd., U.K. for manufacture of various types of air filters and oil fillters in internal combustion engines and of other automobile engines as well as filters for industrial applications such as refrigeration and air conditioning form 1956 for seven years and again from 1963 to 1972.

The Company at present has no foreign collaboration in respect of any of the above three products, or in respect of their transformer radiators, which they commenced manufacturing during 1973.

4.81 The installed capacity and sales by this Company during the past two years have been as in the following Table:—

TABLE 46
Capacity and turn-over of M/s. John Fowler (India) Ltd.

(Rs. Lakhs)

			Ite	m			Installed capacity	Sales				
								1975	1976			
1. Tobace	o Process	ing	M	achine	ery	and	· · · · · · · · · · · · · · · · · · ·					
Ancilla			•	•	•	•	Rs. 73.3 lakhs	30.0 (92 Nos.)	9.5 (40 Nos.)			
2. Filters	for insula	ting o	il ar	nd avi	atior	a fuel	525 Nos.	47.3 (145 Nos.)	53.5 (154 Nos.)			
3. Filter bustion	and Eler engines						5.43 lakhs Nos.	100.2 (1.58 lakh Nos.)	94.0 (1.48 lakh Nos.)			
4. Transfe	ormer Ra	diator	S			S.	430 tonnes	(191 tonnes)	(248 tonnes)			
5. Spares						16		14.5	24.2			
6. Others		•	•					••	7.7			
							A TOTAL STREET	209.4	212.0			

Source: M/S. John Fowlers (India) Ltd.

- 4.82 As would be seen from the above date, the tobacco processing machinery accounted for about 14% of the total turn-over of the Company during 1975, and only 4.5% in 1976. It would also be noted that the Company is subject to very low capacity utilisation which in 1976 ranged between 13% (for tobacco processing machinery) and 57% (for transformer radiators).
- 4.83 The following Table indicates the items of tobacco machinery manufactured by the Company and the values of production during the last five years:—

TABLE 47
Production of Tobacco Machinery by John Fowlers (India) Ltd.

(Rs. Lakhs) Item manufactured 1973 1974 1975 1976 1977 1. Conveyors . 0.50 0.380.242.11 0.35 Threshers . 0.363. Dust Recovary filter units 4.42 0.30. . . . 4. Stem Shakers 0.74 0.98 0.975. Cylinders 2.95 7.14 6. Auto Feed . 2.17 7. Rotary Dryer 13.25 8. Air lifts 0.381.00 . . 9. PMD Equipment 1.76 16.05 Green Leaf threshing plants 23.1946.85 1.56 12.45 . . 11. Water treated stem process 5.44 4.03 15.22 21.41 . . 42.77 73.09 31.35 9.18 29.82

Source: M/S. John Fowlers (India) Limited,

The above shows that production of tobacco processing machineries has tended to decline during the last five years and the production 1977 at Rs. 30 lakhs represents only 40% of the installed capacity of Rs. 73.3 lakhs as compared to 100% capacity utilisation in 1974. The main reasons for under utilisation of capacities have been stated to be severe recession in demand of the various users of their products i.e. the cigarette-making Companies.

4.84 Customer-wise break-up of sale of tobacco processing machinery by John Fowler (India) Ltd., is as in the following Table:—

TABLE 48
Sales of tobacco machinery by M/s. John Fowlers (India) Ltd.

					(In Rupe	es Lakhs)
_		1973	1974	1975	1976	1977
1.	I.T.C. Ltd	42.56	69.15	6.29	6.59	0.64
2.	Golden Tobacco Co. Ltd		• •	4.05	0.55	2.70
3.	Vazir Sultan Tobacco Company Ltd.		1.40	10.02		13.35
4.	Godfrey Philips (I) Ltd			9.73	1.22	0.36
5.	K.S. Subbaian Pillai and Co. Ltd	• •	0.15	0.24	••	12.41
	Total	42.56	70.70	30.33	8.36	29.46

Source: M/S. John Fowlers (India) Ltd.

4.85 The Company is also faced with very low order book for tobacco processing machinery. The following Table shows the outstanding orders with the Cmpany as on 1st March, 1978:—

TABLE 49
Outstanding Orders of M/s. John Fowlers (India) Ltd. as on Ist March, 1978

S. No.	Name of order	Type of machine required	Quantity	Value (Rs. Lakhs
1.	Wazir Sultan Tobacco Co. Ltd. Hyderabad.	PMD Modernisation equipmen	t 1 lot	15.69
2.	Ceylon Tobacco Co. Ltd., Colombo.	Thresher Classifier Bar baskets for thresher	1 No. 1 No. 3 No.	1.77
3.	Godfrey Philips (I) Ltd. Bombay .	Autofeed Conveyors of stain- less steel Stem Flattener	1 No. 2 No. 1 No.	1.67
4.	National Tobacco Co. of India Ltd., Calcutta.	Rag Drier	1 No.	4.99
	Vazir Sultan Tobacco Co. Ltd., Hyderabad.	DRF Units Suitable for Molins MK8 machine.	2 No.	0.44
		TOTAL		24.56

Source: M/S. John Fowler (India) Ltd.

^{4.86} M/s. John Fowler (India) Ltd., claim that the manufactures complete range of tobacco processing machinery, details of which may be seen at Annexure XXII. It has stated that with its present installed capacity for tobacco processing machinery it is capable of manufacturing the following plants in one year:—

	3.	Linear Classifiers 9 Nos.	
	4.	Autofeeds	
	5.	Matering Device 2 Nos.	
	6.	Conditioning Cylinders 2 Nos.	
	7.	Vibratory Conveyors	
	8.	Band Conveyors	
	9.	Traversing & Reversing Band Conveyors 3 Nos.	
	10.	Lamina Redrier 12' wide × 140 ft long 1 No.	
	11.	Stems Redrier 6' wide × 70 ft long 1 No.	
	12.		
	13.		
	14.		
	15.	·	
	16.		
	17.	_ _	
	18.		
	19.		
	20.		
	21.	2	
	22.	0/3610	
	23.		
	24.	Electrical Control Geal for an are equipments	
(B)		Or two units of 1800 Kgs/hour Threshing Plants each consisting of:	
	1.	Tipping Table 1 No.	
	2.	W. 1824A. Jalih. 50	
	3.	N. C. (110, 500 11, 11, 12)	
	4.	Dampers and 5 Nos.	
		Airleg HEM HE THE 1 No.	
	5.	Recirculator 1 No.	
	6.	Tangential Separators including Feed dusts for Airlift 6 Nos.	
	7.		
	8.	1.84	
	9.		
	10.		
	11.		
	12.	4.4 3.4	
	13.	10.31	
	14.	137	
	15.	137	
	-	imary manufacturing Department (PMD) Equipments for two cigarette units of 4,	500 million
(C)	Pru	cigarettes annum capacity each unit consisting of	300 million
	1.	,	
	2.	•	
	3.	Driers (Rotary) 2 Nos.	
	4.		
	5.	C.R.S. Classifier 1 No.	
	6.	Water-treated Stems Process 1 No.	
	7.	Automatic Feed to Rag Cutter 1 set	
		-	

8.	Automatic Feed to Stems Cutter			•				1 set
9.	Vibratory Conveyors .	•.		•		•		10 Nos.
10.	Band Conveyors		•	•	•			10 Nos.
11.	Stem Rollers			•				1 No.
12.	Cut Rolled Stems Bins .	•	•				•	3 Nos.
13.	Pneumatic Feed to Cigarette Ma	kers						1 set

It can also undertake orders in combination of the above equipment e.g., it can supply one unit each under (B) and (C) per year.

- 4.87 The Company claims that since the expiry of the collaboration arrangements in 1972 it has developed technology to manufacture the following equipments on the basis of their own Research and Development:—
 - (a) Blending Bins, measuring 3' 6" wide × 9 ft. long having storage capacity of 4,000 Kgs capable of discharging at 1350 Kgs to 2700 Kgs/hour.
 - (b) Probe press of 4500 Kgs/hour capacity.
 - (c) Rotary Driers of 1350 Kgs to 2700 Kgs/hour with moisture extraction to the desired level.
 - (d) Water-treated Stems Process 750 Kgs to 950 Kgs/hour of cut rolled stems.
 - (e) Cigarette Ripper with capacity of 135 Kgs/hour.
 - (f) Winnowing Process Plant of 50 Kgs/hour.
 - (g) Classifiers for cut rolled stems 450 Kgs to 900 Kgs/hour.
 - (h) Press Complex for packing lamina at 3600 Kgs/hour.
 - (i) Stems Shaker for packing stems at 900 Kgs/hour.
 - (j) Vibratory Conveyors with pneumatically operated trap door having a capacity of up to 2700 Kgs/hour.
 - (k) Autofeed with Tipper mechanism with capacity from 1350 Kgs to 2700 Kgs/hour.
 - (1) Stem Roller with capacity of 180 Kgs to 350 Kgs/hour.
 - (m) Complete design, manufacture, erection and commissioning of Green Leaf Threshing Plant of Green Leaf Threshing Plant of 4500 Kgs/hour consisting of four stage threshing, incorporating latest linear classifiers, Rotary Drier, fixed basket threshers, Conditioning Cylinders Conveyors, Autofeeds, metering devices, Apron type Redriers lamina and Stem Packing complex, quality control testing equipment etc....complete Plant having a capacity of 25 million Kgs per annum.
- 4.88 The company has stated that it has plans for upgrading its technology. According to it, the conventional Rotary Driers suffer from certain disadvantage which will be overcome in the new and sophisticated drier it proposes to manufacture in collaboration with an overseas party. It has also stated to be exploring the possibilities of manufacturing Bank Tobacco Plants for recovery of tobacco dust and scrap at Cigarette Factories.
- 4.89 In the face of reduction in domestic demand the Company has been now attempting to find export markets. The Company claims that it has been able to secure export orders as follow:—
 - (i) Ceylone Tebacco Co. Ltd., a subsidiary of British American Tobacco Co. Ltd., of U.K. has placed an initial order for equipment worth about Rs. 2.2 lakhs.
 - (ii) It is presently negotiating for further requirements of Ceylon Tobacco Co. Ltd.., to the extent of Rs. 4 to 5 lakhs; in this context, a representative of the Ceylon Company visited the Company during February, 1978 to study the facilities and skills that the latter possesses.

- (iii) Tee Company has received several orders from Bangladesh and one of the senior executives was in Bangladesh in March, 1978 to negotiate and finalise the placement of orders.
- (iv) Project and Equipment Corporation has been in touch with John Fowler for likely overseas requirements and is already acting on its behalf of secure foreign orders. PEC recently sounded John Fowler on the possibility of joint enterprise with a foreign concern.
- 4.90 According to John Fowler (India) Ltd., on the basis of its past experience and the current trends, the demand for the type of machinery being manufactured by it at present is likely to be about Rs. 35.40 lakhs per annum for each of the next five years as against its installed capacity of Rs. 75 lakhs per annum.
- 4.91 At the time of inception there was no holding of the non-resident principals in the equity of M/s. John Fowler (India) Ltd. In 1963 when the Company raised its paid-up capital to Rs. 16.93 lakhs, shares worth Rs. 2.0 lakhs were taken up by the foreign collaborators, M/s. Vokes Group Ltd., U.K. and shares worth Rs. 0.30 lakhs were allotted to M/s. Stream Line Filters Ltd., U.K. as consideration for the technical collaboration agreement. During 1965 when the paid-up capital was raised to Rs. 20 lakhs, additional shares worth Rs. 2.9 lakhs were allotted to M/s. Vokes Group Ltd. The non-resident shares have since been retired and the Company has shown the following as its Shre-holders in its present paid-up capital of Rs. 28 lakhs.

	(Rs. Lakhs)
(i) Non-residents	
(a) Mr. F.C. Kraty	. 0.007
(b) Mr. David Holmes Whiteley	. 0.896
(c) Mr. Charles William Whiteley	. 0.476
Y21.784.4	1.379
(ii) Resident (accounting for mor than 5% each).	
(a) Senapathy Whiteley	. 2.18
(b) Mrs. V.P. Deshpande	2.09
(c) Bank of India	. 2.04
	6.31

4.92 The Company is earning good profits. During 1976 it had accumulated reserves of Rs. 26.5 lakhs as against its share capaital of Rs. 28 lakhs. It depended on loan capital to the extent of 53% of capital employed which was financed as follows:—

(i) Net worth

•									(Rs. lakhs)
	(a) Share cap	ital	•				•	•	28.00
	(b) Reserves	•	•	•	•	•	•	. •	26.50
								_	54.50
(ii)	Outstanding L	oans					•		61.10
(iii)	Total capital e	mploye	d	•		•	•		115.60

During the year 1976 the Company earned gross profits of Rs. 23.09 lakhs which were equivalent to 20.76% of the capital employed (Rs. 115.60 lakhs) and 10.88% of sales turn-over (Rs. 220.45 lakhs). The net after-tax profits earned by the Company were of the order of Rs. 7.70 lakhs which were equivalent to 14.19% of its net worth.

Molins of India Ltd.

4.93 The Company was set up in 1960 by M/s. Molin Ltd., of U.K. in Calcutta for the manufacture of spare parts of the cigarette-making machiner. During the course of the next three years, the Company increased the range of spare parts manufactured by it and also decided to manufacture cigarette-making machines, when in 1964, Molins Ltd., U.K., agreed to give the Indian Company the know-how for the production of machines required by the cigarette industry. According to Molins of India Ltd., no payment for technical know-how was envisaged; the only condition for provision of technical know-how was that the Molins Ltd., of U.K. should be permitted to retain 51% of the equity of the Indian Company.

A sum of £5,000 was paid by the Indian Company for purchase of drawings. During 1967-70, the factory in Calcutta faced a six-month strike and a ten-month closure. To meet the situation, the Company set up a second factory at Chandigarh in 1970.

4.94 At the time of inception, Molins Ltd., of U.K. had a share of 50.8% in total equity of Rs. 16 lakhs of Molins of India. M/s. ITC Ltd., accounted for 27.6% of the equity and the balance was owned by Vazir Sultan, National Tobacco and other parties. Some changes have taken place subsequently and the present share-holding of Molins of India Ltd., is as in the following Table:—

TABLE 50

Equity ownership pattern of M/s. Molins of India Ltd.

				16					Rupees Lakhs	Per cent share
1.	Molins of U.K.				M	W			50.83	50.83
2.	ITC Ltd.			- 1		ENA.	8	•	8.66	8.66
3.	Vazir Sultan			.1	Company of	9714	1		3.12	3.12
4.	National Tobacco				सदामे	व जयर	1.	•	1.30	1.30
5.	Other cigarette-making	unit	S			•			2.25	2.25
6.	Dungershi Jerambhai				•				1.00	1.00
7.	Individuals .	•			•				32.84	32.84
*					Тотл	NL	ē		100.00	100.00

Source: M/S. Molins of India Ltd.

4.95 Molins of India is registered with DGTD for manufacture of machinery tor the cigarette industry. Its original capacity was 40 machines per year and spare parts. The Company has stated that in 1974, in view of a large number of letters of intent issued to the new cigarette manufacturing units and as suggested by DGTD, it made arrangements to increase its capacity to 60 machines per year (and spare parts) valued at Rs. 600 lakhs.

The Company informed DGTD that it had plans to produce 56 machines each in 1975 and 1976 but that it could stretch its capacity to produce a total of 68 machines in 1975 and 73 machines in 1976, if there was demand. It seemed that the demand for machines anticipated by DGTD and the Company, did not materialise. The total number of machines ordered on the Company for delivery in three consecutive years was 27 in 1974, 34 in 1975, and only 16 in 1976. Due to the lack of demand from the cigarette industry, the Company diversified its pattern of production and it is presently also manufacturing casting machines, general packing and wrapping machinery

and also undertaking other jobbing work. The actual production of cigarette machinery and spare parts during 1973-77 has been as in the following Table:—

TABLE 51

Production pattern of M/s. Molins of India Ltd.

	Name of the machine		No.	of machine	3	٠
		1973	1974	1975	1976	1977
1. 2.	Plain Cigarette Maker } Filter Ciagarette Maker	8	14	11	5	2
3.	Duplex Packing in Shell & Slide	6	3	2	• •	1
4.	10's Do	·5	1	7	2	••
5.	Filter plug assembler attachment	••		• •	1	3
6.	Plug maker	- Faith		1	• •	• •
7.	Cellophane wrapper		3	2	• •	
8.	Cutter			••	••	••
	TOTAL	19	18	23	8	6
	Value (Rs. Lakhs)	165	170	182	84	55
II.	Value of spares (Rs. Lakhs) .	सन्यमेव ₄₃ यने	38	56	108	102
III.	Total sales for Cigarette	208	208	238	192	157
IV.	of which					
	(a) Exports (Rs. Lakhs)	5	5	59	51	55
	(b) Domestic Sales	203	203	179	141	102

Source: M/S. Molins of India Ltd.

^{4.96} It would be noticed that production of cigarette machinery and spares increased in 1975 over the levels ain 1973, 1974 but recorded a continuous reduction in 1976 and 1977. The production in 1977 at Rs. 157 lakhs represent only 26% of the installed capacity of Rs. 600 lakhs: it had also been at a low level in the preceding four years. Even the above production of cigarette machinery includes the production for exports which has picked up during the last three years when it averaged Rs. 55 lakhs per year. Due to lack of demand, the Company has produced items other than cigarette machinery and its turn-over for such items during 1977 was of the order of Rs. 37 lakhs. The demand from the domestic cigarette industry is far below present capacity. In 1977, it had to lay off 30% of their operators for six months.

^{4.97} The following Table indicates the pending orders with the Company as on 1-3-78 and the Company's estimated annual demand both for domestic market and for exports.

TABLE 52

Outstanding Orders and Demanding Estimates for Secondary Tobacco Machinery

(No. of Machines)

		C .1						ng order	Estimated annua	l demand
	Name	oi the	e mac	chine				Molins of Ltd. as 3-78	Domestic	Export
1.	Plain Cigarette Make	er-Ml	K-8 S	SM		•		2	1	2
2.	Filter Cigarette Make	er M	K8SN	M/PA	TRO		•	3	3	2
3.	Duplex Packing in Si	hell 8	k Slid	le M	2 Dupl	ex		2	1	1
4.	10's	Do.		1	0's		,	• •	2	• •
5.	Filter Plug Assemble	r Atta	chen	nent				1	• •	••
6.	Saft Packer .				•		•	• •	6	8
7.	Cellophane wrapper			•	•			••	2	2
8.	Cutter .				•			2	1	
						500	eres)	(+ 1 Exp	ort)	
					4	12		11	16	15

Source: M/S. Molins of India Ltd.

The above data show that the present outstanding orders of Molins of India are equivalent to only two months production; the Company does not hold good prospects for the future but estimates that the total demand for tobacco machinery including prospective exports, will enable it to utilise only 50% of its capacity during the next five years.

4.98 The following Table indicates prices charged by Molins of India for their various types of machines since 1972:—

TABLE 53

Prices charged by M/s. Molins of India Ltd.

٠ ـ	Type of machine -	1972	1973	1974	1975	1976	1977	1978
1.	MK8 SM Cigarette-making machines	7.1	7.1	7.1	7.66	8.25	8.87	10.23
2.	PA 7 RO Plug Assembler .	4.53	4.53	4.53	4.89	5.38	5.92	6.51
3.	M 2. 10's Packing machine .	3.49	3.49	3.49	3.77	4.50		
4.	P.M. 4 Plug maker			••	5.07	5.58	5.58	5.86
5.	M. 2 Duplex Packing machine	8.03	8.03	8.03	8.67	9.54	10.00	

Source: M/S. Molins of India Ltd.

^{4.99} It would be noticed that the prices charged during the first three years i.e., 1972-74 by the Company for various machines were constant. Thereafter, the prices have increased gradually and sharply in 1978. According to Molins of India, its prices are competitive as compared to the prices charged by Molins of U.K. as will be seen from Table-54 as furnished by the Company.

⁷⁷⁻⁸ M of LJ&CA/ND/79

TABLE 54 Price comparison

Mad	•					Rupees Lakhs/Machine				
Machine			ompa	.ny		1975	1976	1977	1978	
MK8SM		Molins, U.K.		•	•	7.94	9.32	8.76	10.29	
		Molins of India		•		7.66	8.45	8.87	10.23	
PA7RO	•	Molins, U.K. Molins of India	•	•	•	 4.89	5.11 5.38	5.92	6.51	
PM 4	•	Molins, U.K.	•		•	4.35	•••		5.72	
		Molins of India	•	•	•	5.07	5.58	5.58	5.86	
TCMI		Molins, U.K.	•	•	. •	4.78		• •	6.41	
		Molins of India	•	•		. 4,39	4.83	5.07	5.85	

Exchange rate: 1975 & 76 @ Rs. 18.3, 1977 Rs. 15.0 and 1978 Rs. 15.5.

Source: Molins of India Ltd.

since 1968:—

4.100 Detailed Statements indicating the sale of machines by Molins of India may be seen at Annexure —XXIII. The following Table summarises the machines sold by the Company

TABLE 55 Machine Sales by Molins of India since 1968

प्रांगोन नगरे

(Number of Machines)

					<	막다시의	역식성		(,	
								To New Cig. Unit	To Old Cig. Unit	For Export	Tctal
MK8 SM			•	•			•	2	29	2	33
PA7RO		•	•			•	•	1	10	3	14
MK8SM/PA7R	O				•	•		1	22	3	26
M2 Duplex				•		•		2	33	2	37
M2 10					•			4	8	5	17
Wrapper		., ·		•		•	•	• •	20	2	22
PM4		•	•	•	•	•	•	••	1	••	1
				Тота	L.	•		10	123	17	140
Annual Average	•						•	1	12.3	1.7	14
										·	

Source: M/S. Molins of India Ltd.

4.101 The Company has stated that as per its present installed capacity and reckoning working on three shift basis, it can supply each year machines to meet requirements of 3 to 4 cigarettemaking units each of 4,500 million cigarettes capacity. Details of machines required for the standard size units and machines that can be supplied by Molins of India per year are shown below:—

TABLE 56

Installed Capacity of Molins of India Ltd.

_	Type of machine	No. of machines required for 4500 million capacity cigarette unit	chines that can be sup- plied by Mo-
1.	Tobacco-Cutting Machine (TCM-1) (Capacity of 1600 kgs/hour)	2	7
2.	Plain Cigarette makers (MK8SM) (Rated speed 2500 Cigarettes per minute)	5	20
	Filter Tipped Cigarette Making Machine (MK8SM/PA7RO) (Rated speed 2000 cigarettes per minute)	6	20
3.	Shell and Slide twin track packing machine (M2 Duplex) (Rated speed 300 packets per minute)	su	Matching with pply of ciga- tte makers
	Or Shell and Slide Single Track Packing Machine (M2-10) (Rated speed 150 packets per minute). Or	10	Do
,	Single Track Latin Type Soft Packer (SP. 1) (Rated speed 150 packets per minute, capable of packing 5, 10 or 20 cigarettes)	10	Do.
4.	Cellophane Wrapping Machine (Required only if the final product is equired to be wrapped in Cellophane). WM2 Model (Rated speed of 300 packets per minute)	5	Do.
	CW 11 Model (with a rated speed of 140 packets per minute)	10	Do.

Source: M/s. Molins of India Ltd.

- 4.102 Molins of India sell their machines on the following terms and conditions:
- (i) 20% with order and full payment on despatch of machines (some customers purchase the machines under IDBI Loan).
- (ii) The normal delivery time is between 9 to 12 months for the home market and 6 months for export.
- (iii) A formal guarantee is given for 12 months. In case, failure of the part is due to the defect in manufacture, it is replaced free at any time.
- (iv) Full after-sales service is provided not only in India but also abroad. The Company has four sales engineers available at all times. In addition, it runs Courses on the operation and maintenance of machines twice a year and these are attended not only by operating and maintenance personnel in cigarette companies within India but from many countries aborad. Last year, it had representatives from Egypt, Sudan and Aden. In addition, it sends engineers abroad for installation and training.
- 4.103 Till 1975, Molins of India had directed the efforts of their Design and Development Department towards substitution of various imported components and units of various machines.

It claims that approximately 4,000 components have been redesigned due to Indian isation and the import content of machines went down from 50% in 1971 to about 6% in 1977. During 1977, the Company spent Rs. 8.70 lakes on Research & Development programme. It has stated that as a result of its R&D efforts, it has developed the following machines which have since been marketed:—

- 1. Soft Packet.
- 2. 5/8/5 Converted Cigarette Maker.
- 3. Cello Wrapper.
- 4. Filter Maker.
- 5. Tobacco Cutting Machine.

The Company has also introduced some technological improvements as enumerated at Annexure XXIV.

4.104 Molins of India has generally earned reasonably good profits, though its position in 1977 was uncomfortable as may be seen from the following Table:—

TABLE 57

Financial Analysis of M/s. Molins of India Ltd.

(Rupees Lakhs) *1976 1977 I. Capital employed (i) Net worth (a) Share Capital 100 100 86 (b) Reserves 84 186 184 (ii) Outstanding loans 33 71 219 255 Total II. Income 246 213 III. Gross profits Net profits 21 8 Tax provision. 25 12 Interest payment 9 6 55 26

(Source.—Balance Sheet and Profit and Loss Account of M/s. Molins of India for the year ending 31st December, 1977).

^{4.105} During the year 1976, the Company earned gross profits of Rs. 55 lakhs which were equivalent to 25% of the capital employed (Rs. 219 lakhs) and 22% of the turn-over (Rs. 246 lakhs). The net after-tax profits earned by the company (Rs. 21 lakhs) were equivalent to 11.3% of its net worth. However, the Company suffered a set-back in 1977 when gross profits were halved and net profits reduce to one-third of the level in 1976. The rate of return on capital employed by the Company was 10% and the ratio of net profits to net worth was 4.3%.

CHAPTER V

ANALYSIS OF THE PROPOSAL

- 5.01 Before discussing the merits of the proposal it is necessary to point out that the proposal of the applicant was at first rejected by the Department of Company Affairs by its letter dated 8th June, 1976, on the following grounds viz:
 - (1) The items of manufacture were not included in the list of industries open to large industrial houses/foreign majority companies.
 - (2) At present there were already two units which were manufacturing the machines proposed to be manufactured by the Company in the country.
 - (3) Adequate capacity already existed in the country for the manufacture of plant, machinery and equipment for the processing of Tobacco and manufacturing of tobacco products.
- 5.02 The applicant company, however, resubmitted the application to the Government for reconsideration on 9-8-77 and it was thereafter the present reference has been made by the Government to the Commission for enquiry under section 21(3) (b) of MRTP Act. Regarding the grounds given by the Department of Company Affairs it is contended on behalf of the applicant that machinery for Tobacco processing and Tobacco product manufacture fell within the category 'Industrial Machinery', which item was specifically included in Appendix I to the Press Note dated 2nd February, 1975 of the Government of India; the details of the Government's Licensing Policy have been set out in the Press Note. It was claimed that industrial machinery was a field of manufacture open to large industrial houses/foreign majority companies and that tobacco machinery was in fact classified as industrial machinery by the DGTD in their "Hand Book on indigenous manufacturers of Engineering Stores." It was also pointed out that the existing manufacturer of cigarette machiney was a foreign majority company when it was allowed to establish its factory. It was also pointed out that as a matter of fact the Central Government had issued to the applicant company a letter of intent approving the technial collaboration for the project with M/s. Arenco AB, Sweden and DGTD had also registered the company as a manufacturing of Tobacco processing and tobacco product manufacturing machinery, although the company had more or less the same foreign share holding then as it has now. It was also pointed out the the Government had cleared the capital goods application of the company to import certain machinery and granted an import licence for two proto-types required for the implementation of this project and the necessary permission under foreign exchange regulations for the remittance of fees for technical know-how to the foreign collaborators was also granted. It was contended that these steps clearly proved that this field of manufacture was not necessarily closed to foreign majority companies like the applicant. It was also emphasised that very soon the applicant company was going to cease to be a foreign majority company and that its foreign held equity was to be reduced to 40%. In regard to the applicant company being a large industrial house, it was pointed out that as soon as its foreign equity was reduced to 40% it would cease to be inter-connected with WIMCO Ltd. and the share holding of Swedish Match Company in the applicant company would be well below 33-1/3%. It was also contended that with the commencement of production of dairy equipment shortly by the Indian Dairy Corporation, a public sector undertaking, and the reservation made for exclusive development in the small scale sector of certain items of dairy equipment, the applicant company was not likely to be in any dominant position in the dairy equipment and that it would cease to be an MRTP company altogether in the near future.
- 5.03 In regard to the other two grounds also, the applicant has made certain submissions. Susffice it to say at this stage that they will be examined in depth in course of the analysis of the proposal in subsequent paragraphs. In regard to the initial credentials of the applicant company, we would content ourselves by saying that the proposal is examined only on the assumption that foreign equity holding of the company will be reduced to 40% and as such the company will cease to be a foreign majority company. It also seems to us that the very fact that the case has been referred to us by the Government pre-supposes that there was no prima facie bar to the applicant company entering the field of cigarette making machinery or tobacco processing machinery. The other

circumstances indicated by the company earlier also support the same view. The proposal, therefore, cannot be rejected in the changed circumstances on the first ground given by the Department of Company Affairs. As stated earlier, the other grounds will be examined at appropriate places.

5.04 Nor is it possible to avoid examination of the proposal on the basis of the contention advanced by the applicant through its counsel Shri Shroff at the Public Hearing that the applican company were not required to apply for approval to the Central Government in respect of the proposal in question because its production of cigarette machinery and tobacco processing machinery would be Rs. 2 Crores 40 Lakhs in the 5th year of the Project, where as in the year 1977 itself its turnover was more than Rs. 10 Crores and the proposed production therefore would be less than 25% of the total production and would, therefore, not fall within the definition of substantial expansion as given in Explanation to Section 21(2). There are, however, quite a few imponderables in this argument. For one thing, the figure relating to production of cigarette manufacturing machinery and tobacco processing may well exceed 240 lakhs; for another, total production at the end of five years may be less than 10 Crores. It was also possible that while there was more production of other industrial machinery, there may be less of total production. Moreover, the applicant company had not only made application for permission to expand but they vigorously pursued it and even after making the submission referred to they had not chosen to withdraw the application. It would, therefore, appear that the applicant company themselves were not very clear about the picture that might emerge after five years when the project, if approved, was implemented. We have, therefore, necessarily to examine the proposal on merits.

5.05 But before it is examined it is necessary to set out the context in which it has to be examined. Firstly, the proposal related to the machinery for processing of tobacco, for manufacture of band tobacco, for making and packing of cigarettes, and making of cigarillos and cigarittos. The demand for the machinery will essentially be a derived demand depening ultimately on the demand for the end products like tobacco, cigarettes cigarillos and cigarittos. Secondly, the end products are essentially consumer products and these are products other than necessitites of life, that is to say, they are essentially items of luxury demand or at best items of conventional necessities. In terms of social priorities, therefore, the end products as well as the machinery for making them will occupy a low place. This is particularly so because, according to the prevalent medical opinion, cigarettes and tobacco are harmful to the health of the people. On the other hand, provision has necessarily to be made for the demand for these products which is already existing and which is likely to develop, both by reason of increase in population and by the trends in the preferences of the people. Hence it could not be said that the policy of the Government is either to ban their consumption or to encourage it. There are, however, two aspects of this industry which cannot be ignored. Firstly, its contribution to the revenues of the State. The table in Annexure XXV will show the steady increase in excise revenue right from the year 1972-73. The revenue for the year 1977-78 is put at approximately 510 Crores; there has been a sudden and steep rise in excise revenue in the last fiscal year. The increase in demand for these products and the increase in their production would necessarily increase the revenues of the State by way of Excise. Secondly, the contribution of the industry to the export earnings of the country has also to be borne in mind. From this point of view, the most important aspect is the earnings by export of unmanufactured tobacco which, according to the latest figures, amounted to Rs. 110 Crores for the year 1967-78. Besides, there is the allied question of exploring the possibility of export of cigarettes, cigarillos, cigarittos etc., and also the export of cigarette manufacturing machinery and/or tobacco processing machinery. It is against this general background that the proposal has to be examined in depth.

5.06 The first important aspect be examined is the possible demand for the machinery proposed to be manufactured by the applicant company at the two stages, viz. primary and secondary. As stated earlier, the demand for machinery is essentially a derived demand. It will depend ultimately on the demand for the end products. The applicant's projections of demand for cigarette making and tobacco processing machinery and the basis on which these projections are made are already given in paras 2.40 to 2.48 in Chapter 2.

Demand for Cigarettes

5.07 It will be convenient to analyse the demand for machinery itemwise as projected by the applicant but before embarking on such an analysis it would be necessary to consider the demand projections for cigarette industry which is expected to utilise the machinery in question. The applicant has laid stress on the Guidenlines for Industries 1976-77 according to which the demand for cigarettes is estimated to be 10,000 crore pieces by 1978-79. It has also modified these estimates by making the projection valid upto 1988. There is no difficulty about the additional capacity for the manufacture of cigarettes. Licences have already been issued to certain undertakings for the addi-

tional capacity. The real question is whether the demand estimates made in Guidelines for Industries 1976-77, as modified by the applicant, hold good. In India, during the Sixties, barring certain years, the output of cigarettes had always been on the rise. In 1964-65, the output increased by over 15% over the previous year, On an average, the growth of cigarette output in Sixties worked out to 7% per annum. However, the output during the earlier years of the 70's has slumped and the production during 1974-75 declined by about 6%. The rate of growth of production of cigarettes from 1951 to 1977 is given in Annexure XIV. According to the applicant the decline in recent years is due to contraction in the consumer purchasing power brought about by inflation and successive increase in Excise levies. Presuming that this is a temporary phenomenon the applicant has based its calculations of demand on the rate of growth in the production of cigarettes continuing at 7% as in the 60's.

5.08 The optimism of the applicant is, however, not shared by others. I.T.C., the main manufacturers of cigarettes have projected the demand for their products as under:—

Demand estimates by I.T.C. of cigarettes

								(in million)
1977-78	•				•			30,300
1978-79	•	•	•	•	•	•		30,906
1979-80	•	•		•	•	•	•	31,524
1980-81	•	•		•	•	•		32,154
1981-82		•	1	1		2		32,979

Source.-I.T.C.

They have also given the overall demand projections as compared to the capacity as under:—

Demand projections by I.T.C. as compared to capacity

		No. of Manufac- turers	Annual capacity of cigarettes in millions
(a) Existing	सत्यमेव	੍ਰਿਹਰੀ 10	108,000
(b) Expansion sanctioned			18,000
(c) New Units Licensed but	not installed	d. 17	66,000
(d) Total	•	•	192,000
(e) Present demand			69,000
(f) Idle capacity (a-e)			39,000

Source.—I.T.C.

The estimated rate of growth according to ITC comes to about 2%. On the other hand the figures of actual production by I.T.C. are as under:—

							(Millions)
1973.		•	•	. •	•	•	29,747
1974.		•	• '				34,583
1975.	•			•	•	•	30,969
1976.	•	• •	•	•	•	. •	30,469
1977 .	• .		•	•	. • •	•	38,089

Source.-I.T.C.

It will be seen that the rise in 1974 was 17% over the production in 1973, and the rise in 1977 was 8% over the production in 1976. But in the interval there was a set back and the production in

1977 did not touch the figure of 1974. It was suggested that broad trends could be discerned only over a decade. On the other hand optimists may find some ground at least for cautious optimism based on the figures of 1977.

5.09 On the other hand, the projections of demand made by the Golden Tobacco Co. Ltd., another manufacturer of cigarettes, for the industry as a whole are as under:—

 llion Cgts.)	(Mil			Year		
68,000					1977 .	
72,000					1978 .	
76,000					1979 .	
81,000				•	1980.	
86,000					1981 .	
92,000	•				1982 .	

Source.-Golden Tobacco

As against that the actual production by them in terms of million cigarettes is given as under:—

Y	ear	Productio million cgts.	n Value in rupees	
19	72-73 .	. 6,387	15,21,34,855	
19	73-74 .	5,112	11,99,04,126	
19	974-75 .	. 6,831	16,83,03,912	
19	75-76 .	. 8,880	21,99,05,972	
19	76-77 .	. 10,309	24,85,06,564	

Source. - Golden Tobacco

The average rate of growth as estimated according to Golden Tobacco comes to a little less than 6%. Their own production after its set back in the year 1973-74, registered a rise 33% in the first year, 30% in the second year and 16% in the third year.

5.10 According to Godfrey Phillips, yet another manufacturer of cigarettes, the demand projections for cigarettes, of their brand are as under:—

1979 .				7,950	Million	Pcs.
1980.	•	•		8,250	,,	,,
1981.	•			9,060	,,	,,
1982.	•		•	9,700	,,	,,
1983.	•			10,300	,,	,,

Source. Godfrey Phillips

As against that their production of cigarettes and cigars in the past is as under:-

•				Cigarette	es	Smoking t	obacco	Cigars		
			_	Quantity (Million pcs)	Value Rs. in lakhs	Quantity (kg.)	Value Rs. in lakhs	Quantity '000 pcs.	Value Rs. in lakhs	
1973 .				5,585	4041.2	7,795	6.4	460	2.2	
1974.				5,822	5507.5	6,068	6.7	691	3.3	
1975 .				5,321	5612.1	3,869	4.5	720	3.3	
1976 .				6,143	6567.0	3,921	4.7	5 72	2.2	
1977 .	•			6,025	6507.0	••		946	3.8	

It would be seen that the rate of growth as estimated by Godfrey Phillips works out to 6% per annum, if figures are taken into account only from 1979 and the rate of growth works out to even 7% if their estimated projections of 7,200 million pcs. for 1978 is taken into account. It is, therefore, difficult to explain why according to them the rate of growth for cigarettes in general should be 2% per annum unless it is assumed that they will increase their share of the total market by reason of their superior quality or brand name. It is also significant that actual growth registered by Godfrey Phillips was 4% in 1974, a fall in 1975, 15% rise in 1976 and a slight fall in the year 1977. On the other hand, the applicant is relying on the projections of Golden Tobacco and Godfrey Phillips during the year 1978 for its assumption that the demand for cigarettes might resume its upward turn. A statement showing installed capacity and production of cigarettes by all the undertakings for the years 1975, 1976 and 1977 in the country is given in Annexure XIII.

- 5.11 The existing manufacturers of Tobacco Processing machinery and cigarette machinery however, take a pressimistic view of the trend of demand for cigarettes. This pessimisim is based on their actual production of cigarette making machinery and their assessment of the demand for the same. According to Molins (India) Ltd., the demand from the domestic cigarette industry is far below their present capacity and even with exports they will barely be employing 50% of their total capacity. Their sales have ranged from 208 lacs in 1973, 208 lacs in 1974, 238 lacs in 1975, 192 lacs in 1976 to 157 lacs in 1977. These sales include sales of items other than cigarette making machinery to a small extent. They also include sales on account of export at Rs. 55 lacs in 1977. Similarly, as far as tobacco processing machinery is concerned, actual production by John Fowler was Rs. 73.1, 31.3, 9.2 and 29.8 lacs in 1974, 1975, 1976 and 1977 respectively. According to John Fowler their capacity for production of tobacco processing machinery is fixed in terms of value at Rs. 73 lacs per annum and due to lack of adequate demand for equipment they were working below capacity. The capacity was fixed for the entire range of tobacco processing machinery and ancillaries and there was no break up of individual items.
- 5.12 The per capita consumption of cigarettes remained steady round about 110 from 1965-66 onwards as will be clear from figures given in Annexure XV. This is much less than consumption in many countries. This means that increase in the rate of demand is not higher than increase in the growth of population and the other relevant factors like increase in the per capita income or change in the pattern of distribution of income or increase in urbanisation have not made any noticeable impact on the demand for cigarettes or are at any rate offset by the fall in real income due to inflation or increase in excise duties. This, however, would also suggest that there is considerable scope of increase in the demand either a result of Government measures or as a result of marketing strategies by the manufacturers of cigarettes.
- 5.13 Against this background, it would be hazardous to make any exact estimate about the rate of growth for the next five years. The fact remained that considerable part of the installed capacity remained unutilised and a large part of the additional sanctioned capacity remained uninstalled. We have given earlier the installed capacity and actual production of existing units in The details of the progress or lack of it made by new units in respect of addi-Annexure XVIII. tional capacity are also given in Annexure XVI. Against this we have to take into account three aspects of the matter. Firstly, in considering any proposal of the kind which we are considering, we have necessarily to take a long run view of things. We should avoid the temptation of colouring our outlook either way by the happenings in the immediate past and should evolve a plan which will be effective even when the tide turns. Secondly, we should deal effectively with the factors which inhibit appearance of new entrants in a consumer industry like the cigarette industry a part from the fluctuations in the consumers demand viz. the high cost of capital and the brand names of established producers, especially the leader among them which is a multinational. Any proposal which aims at lowering the barriers or reducing them should be considered sympathetically. Thirdly, the market structure of the industry in question viz. tobacco processing and cigarette making machinery should always be borne in mind. If the market structure is monopolistic, as it is in the present case, there has to be, of necessity, an anxious examination of the possible impact on absence of growth due to monopolistic strangle-hold and at least for ensuring that when the tide of demand turns, the present supplies are not allowed freedom to disregard the need for quality and innovation and to charge any price the traffic may bear.
- 5.14 It cannot be overlooked that cigarettes and tobacco are a major source of excise revenue to the Central Government. The Government is interested in preserving in proper trim, the goose that lays the golden eggs; although it may not be interested in fattening it disproportionately, it would certainly be interested in increasing its egg-laying propensity. The indirect Taxation Inquiry Committee (1978) and its predecessors have made recommendations regarding rationalisation of tax-78—8 M of LJ & CA/ND/79

structure which would certainly stabilise the demand, and particularly the rate of increase of demand. ITC, the major manufacturer of cigarettes laid great store by such reform in this report for the year ended 31-2-77. The demand for cigarettes and other tobacco products is elastic and excise duty forms an important part of the price. The trends towards rationalisation and stabilisation would have salutary effect on the trend of demand for cigarettes, tobacco processing machinery. As a matter of fact the excise can also be used to lower these barriers of entry to this highly consumer oriented industry by either giving excise holiday or at least ensuring reduced excise rates to new units which commence production after a certain appointed date. This will break the vicious circle at present existing of new units not being able to enter or even if they enter to come up effectively because of lack of demand at high prices resulting from high excise and prices remaining high because of supply being restricted from existing units some of which clearly enjoy a dominant position in industry. The introduction of new units in an effective manner would generate a movement towards lower prices, better technology and cause spurt in exports by existing units, some of which have very well established brand names, and enjoy the support of multinational holding companies. abroad. A common enough characteristic of multinationals functioning in host countries has been at least the absence of genuine motivation to export; as some of the authentic surveys like those conducted by the UNCTAD (1971) (Restrictions on Exports in foreign collaboration agreements in India: United Nation Publication Sales No. E. 72.11.D.7) and the RBI (1974) (Foreign Collaboration Collaboration Collaboration Sales No. E. 72.11.D.7) boration in Indian Industry, Second Survey Report) would show. There were, on the contrary, perceptible steps taken by MNCs to even ban or at least restrict exports. This attitude on their part has been considerably checkmated by the Government of India, which has of late insisted on export obligations by MNCs or their subsidiaries in India. The deadlock in cigarette industry has to be approached with a certain degree of boldness, sights have to be set not only on improving domestic demand but also on the established units exploring the foreign markets not only for GLT tobacco. but also for export of cigarettes. As a matter of fact we are of the considered view that even in respect of tobacco processing and cigarette making machinery, it was possible to have made export efforts in the past and, with certain degree of determination on the part of manufacturing units and the expected support from the foreign companies having equity interest in the units in India, it is possible to do so in the future; only an all-out and determined effort has to be made in this direction and appropriate strategies adopted.

5.15 All this notwithstanding the assumption of the applicant, that the rate of growth of the cigarette industry will be about 7% per annum or that the estimate made in the Guidelines for Industry 1976-77 will be fulfilled in the near future, seems open to question. The proposal, in so far as it relates to the manufacture of cigarette making machinery may however be justified, even part from the ground of expected increase in demand: it will lower the cost of machinery and consequently lower the barriers for the entry of new enterpreneurs in the cigarette industry. Effective competition will be thereby promoted; existing suppliers would be compelled to adopt better technology and reduce costs.

Replacement demand for cigarette machinery

5.16 Allied to the question of demand for cigarette making machinery arising from expansion of existing units or setting up of new units for the manufacture of cigarettes is the question of demand for cigarette making machinery relating to the replacement of machinery of existing units and also meeting their need for spare parts. The projections made by the applicant in this regard are essentially based on some kind of rule of thumb. In the course of our discussions with the actual manufacturers of cigarettes we learnt that replacement is not following this pattern and that the existing manufacturers are postponing replacements by reason of the high cost of capital involved. view this situation with alarm; it is so easy to identify here the starting point of the vicious circleif cheaper spares (even machinery) are available manufacturers would go in for them and this will by itself have a beneficial impact on both production and costs. A representative of one of the manufacturers of cigarettes painted during the public hearing a dismal picture concerning how much need there was for spares, even in the case of newer machinery and how costly spares were and its baneful effect on both production and cost. As far as the present proposal is concerned, it seems to us that it would indeed be an effective way of breaking the vicious circle: capital will be made available at competitive costs by expansion of the undertaking as proposed by the applicant by mostly using its existing machine-making equipment. It would, by adopting up-to-date technology, lower the costs of capital for replacement and would also induce the present supplier to reduce its costs by the spur of competition. As we would be indicating at greater length later, in the case of the threshers and separators/classifiers proposed to be introduced by the applicant Co. it would at least have one meaningful advantage over those manufactured by John Fowler, namely, the former occupying considerably less space. From a larger point of view, it will be for the Government to examine whether the replacement of old or out of date capital is inhibited by low profits due to

high Excess or is it due to the tendency of existing units to make the most of available capacity while the good time lasts. In the ultimate analysis the existing units can be expected to take a long run view of things and to replace the old or out-moded parts or machines as and when the occasion arises. It is true that an increase in demand would provide such an incentive but the increase as stated earlier, is a matter of speculation and might take time to materialise; but even in the absence of increased demand the business interests of the producers would dictate the replacement of old machinery and/or its parts. Even from the national point of view it is desirable that old machinery should be replaced at the appropriate time. The same representative of the manufacturer pointed out that maintenance costs of existing old machinery had become enormous and in case of some units it was as high as 76% of the cost. The replacement of spare parts had cost as high as 16 lakhs in one year. From all points of view, therefore, the demand projections of the applicant, in so far as they relate to the replacement of existing machinery for manufacture of cigarettes, should be accepted, and all possible steps should be taken to ensure that the replacement takes place as required. What is true about the machinery for replacement is a fortiori true about the spare parts and the estimates of the applicant, in so far as they relate to spare parts, were also accordingly acceptable.

Packing machinery

5.17 The applicant's proposal relating to manufacture of collapsible packets for cigarettes stands on a somewhat different but firmer footing. The applicant proposed to produce, when the project is finally implemented, 8 packaging machines and allied equipments, estimated to be valued at Rs. 48 lakhs at ex-factory sales price, after deducting landed cost of imported components, if any. A rough idea of the packwise composition of the production of some of the present manufacturers will indicate the nature of the problem. The packwise production by I.T.C. is as under:

Year						10's Shell and Slide (card-board)	20s Hinge Idd (card-board)	20s Soft cup (paper)
1973-74	•	• .		•		. 34060	325	160
1974-75	•	•				. 30450	255	245
1975-76				ē	•	. 44444 544 29920	255	290
1976-77	•		•			. 32470	. 320	300
1977-78	•	•		•	•	. 33400	285	990

Source.—I.T.C.

The pack-wise composition of the cigarettes manufactured by Golden Tobacco is as under:—

Year							20s collapsible pack	20s card-board pack	10s card-board pack
1972-73		-			÷	•	3950824	••	1685460
1973-74		•			•		2899477	1599	2067543
1974-75	•			٠	•		4145837	38876	2773174
1975-76			•		•	•	5098707	64206	3376220
1976-77			•	•	• .	•	6057612	104988	3694204

Source. Golden Tobacco.

Pack-wise composition of the cigarettes manufactured by Vazir Sultan is as under:-

	37		.1! :	0041. 6				Quantities of ciga	rettes (millions)	packed in
	. Y	ear en	aing	30th S	ьерт.			Shells & Slides 10s	Soft Cups 20s	Card-board outers 100's
1973			•		•	•	•	12810	160	• •
1974	٠		• .	•				13708	56	••
1975		•			•	•	•	12054	17	29
1976				•		. •		13521	32	6
1977					•		•	13380	349	• •

Source.-Vazir Sultan.

It will be seen that, while Golden Tobacco put emphasis on collapsible packs of 20's as far as ITC and Vazir Sultan are concerned, they utilise the carboard packs. In the matter of packing, especially for a perishable and sensitive commodity like cigarettes, several basic qualities are required, viz., ability to withstand the rigorous of the climate, the period during which such resistance is effective, efficacy and ease in handling, and above all the cost. From all these points of view, in the long run, it will be in national interest if soft cup packing is introduced in place of shell and slide cardboard packing. It will save quite a lot on cost and will entail saving of cardboard which is a scarce commodity. One of the existing manufacturers of cigarettes stated that cost of packing is as much as 35.4% of the turnover and the future is, therefore, definitely with cheaper packing. The difference that introduction of soft cup will make to the cost of 1000 cigarettes is estimated to be at least Rs. 2. It is significant that Vazir Sultan had recently made extensive enquiries in an effort to acquire soft cup machine and as a consequence of their inability to identify an indigenous manufacturer of such machines, they had in fact applied for licence to import these machines. We now learn as a result of our enquiries that Molins of India have at last manufactured machinery for soft cup packing for packing of 10 cigarettes and this machinery could be improvised so as to provide for packing of 20 cigarettes. It is claimed that this is done with indigenous resources and indigenous knowhow. It was also claimed that this product could stand comparison with any foreign make based on Arenco technology, which has not made any advance for the last twenty years and which has not made any headway in the world market. It seems to us that switch-over from shell and slide packing to soft cup packing is undoubtedly in the national interest and the demand for soft cup pack machinery should be encouraged and will clearly arise as time passes. Mechanisation of packing for cigarettes and cigarillos will also help their export as is indicated in para 5.24. Question then will be whether there should be only one producer like Molins India or the applicant should also be allowed as a competitor to Molins, so that there could be competition not only in the matter of price of machinery but also in the matter of technology utilised for the purpose of manufacturing the same. It was claimed on behalf of the applicant company that the machine they proposed to manufacture was one of long established and proven design that it was versatile in its application in that it could be made to pack tens or twenties or any combination and that it could handle packs completely of soft board or laminate or part hard board and part soft board and that it offered a variety of Top closures. The relative advantages of the machines of Molins and the applicant company if allowed to manufacture may be left to the shrewd choice of the consumers, and it would be desirable from the point of view of the consumers that they should have a choice. Apart from this question, in sofar as the demand is concerned, this part of the proposal of the applicant requires serious consideration.

Green Leaf Threshing

5.18 Apart from increase in the production of cigarettes and the consequent increase in the demand for cigarette making and tobacco processing machinery, there is the question of introducing better method of production of cigarettes by subjecting the raw tobacco to green leaf threshing in the existing units. The mechanised stemming of green leaf threshing is estimated to be 20% more economical than hand stemming process. Besides, the time factor is especially important. In areas like Karnataka where due to the humid climate during the post-harvesting period, the processing of the leaf has to be completed within the shortest possible time to avoid deterioration in leaf quanlity; in Andhra Pradesh it usually avoids nearly three months delay caused by the monsoon.

During peak periods, non-availability of skilled labour also presents considerable problems. There is, therefore, considerable scope for improvement in quality of the raw material used by the cigarette industry and their price costs. The projections of demand for green leaf threshing machinery made by the applicant insofar as they relate to the existing cigarette manufacturing units are not wide off the mark, subject to observations made in para 5.22 below.

5.19 An important source of the demand for tobacco processing machinery, particularly the green leaf threshing plants, is the demand for unmanufactured flue-cured virginia tobacco, which is being exported. Paras 4.01 to 4.36 give the relevant details regarding tobacco industry. Even at the risk of repetition and in order to bring home the essential point some of the salient aspects are highlighted here. Table 25 para 4.11 give the figures of area, production and yield of tobacco in general and VFC tobacco in particular respectively from the year 1960-61 to 1976-77. production and acreage of tobacco as well as VFC tobacco fluctuates from year to year due to pressure of competing alternative crops, there would be no difficulty in getting sufficient quantity of requisite quality of tobacco for exports, if exports were remunerative. During 1976-77 FCV tobacco was cultivated over an area of 143,000 hectares of which light soil acreage accounted for 58,300 hectares or 40%. During 1977-78 the light soil acreage under FCV increased to 80,000 hectares. The proportion of light soil area to total virginia area is expected to increase further with more emphasis on this programme during Sixth Plan. The main strategy of tobacco development during the Sixth Plan, according to Directorate of Tobacco Deveopment, will be the continuance of centrally sponsored scheme for extension of cultivation of VFC tobacco to new light soil areas. It was tentatively proposed to increase the total production of tobacco from 425 million kg. to 480 million kg. during 1982-83, and additional production of 55 million kg. is proposed. In case of VFC tobacco additional production of 35 million kg. is envisaged. In order to achieve this target an additional acreage of 55,000 hectares in new light soil area is proposed. As is made clear earlier also, these are no doubt tentative targets but they do emphasise the fact that there will be no problem in making available adequate quantities of tobacco for export purposes. It also under lines the need for matching our export strategy with the production trends envisaged and it is in working out the strategy that improvement in technology viz. mechanisation of stripping will play a notable part. Among the different types of tobacco grown in India the tobacco of the flue-cured Virginia type has a special significance. It constituted the bulk of our exports of unmanufactured tobacco in 1975-76, having touched the figure of 86 crores. The figure for 1976-77 is 87 crores. Exports of unmanufactured tobacco from India during 1977-78 recorded 75,399 tonnes valued at 110.61 crores compared to exports of 80,134 tonnes valued at 96.62 crores during 1976-77. The unit realisation which rose from 6.46 per kg. during 1972-73 to 12.06 rupees per kg during 1976-77 rose further to Rs. 14.67 per kg. in 1977-78. For the year 1978-79 the Tobacco Board has fixed a target of 77 million kg. valued at 120 crores which is well within our reach. A statement giving break up of tobacco exported, variety-wise for the period from April-September 1976-77 and 1977-78 is given in Annexure XVII. Available figures regarding exports of all varieties for the months subsequent to that period (i.e. six months) are 86.4 crores, against 74 crores for the corresponding period of the earlier year.

5.20 FCV tobacco, prior to its export, has to be graded, stripped if necessary, redried and packed in wooden cases lying in polythene films. As per the latest information from the Tobacco Board there are at present 57 redrying factories mostly located in Andhra Pradesh. Out of these very few are having Indian made machinery. The machinery in remaining plants had been purchased from countries like USA, UK, Germany. According to the Tobacco Board, there was no scope for new redrying plants as there was sufficient capacity in the country. But the consideration given earlier for replacement of cigarette machinery would also hold good in regard to redrying plants and if better technology is used for processing of the leaf it would definitely help the producers of tobacco to cater to the needs of hitherto untapped export markets like West Germany, who prefer better quality leaf as per international standards. The redrying machinery however was outside the pale of inquiry because the proposal by the applicant company does not include manufacture of redriers. In case the existing cigarette factories follow the example of ITC and introduce GLT plants, this will dispense with the need for redrying the tobacco required by them and to that extent the question of side placement of labour employed by redrying plants will arise. Next is the stripping on stemming of leat which is a process by which the leaf midrib is removed. A number of countries preter to import flue-cured tobacco in the form of strips while others purchase whole leaf, but the trend is towards import of stripped tobacco. There is increasing preference for striped tobacco from India is the international market for obvious reasons such as lower freight, reduction in handling costs and easy usability in cigarette blending. India is one of the tew countries where tobacco is stripped manually. The cost of labour employed for hand-stemming operation has been steadily going up. With a view to reduce the stripping costs the use of mechanised

stripping process has been gaining groud and the first green leaf threshing plant in the country was established in 1970 at Guntur and another is in the process of installation. As stated earlier, the mechanised stemming of green leaf threshing was estimated to be 20% more economical than hand stemming processing. There is no basis for the suggestion made by John Fowler that 50% of the tobacco exported from India is hand stripped because of stipulation by foreign customers. Moreover, the time factor is also especially important in certain areas like Karnataka and Andhra Pradesh. The EEC Expert team headed by Mr. Rosetto which visited India in early 1976 stated that cost of hand stripping came to about 50 p. per kg. and this could not be improved upon by machine threshing. However, mechanised threshing improved the yield by 5%, resulting in cost reduction by 50 p. per kg. Moreover, according to the committee there was general preference for mechanically stripped leaves. It was stated to us that there was import of hand stripped tobacco into the EEC only from India and a few other countries. Manufacturers of cigarettes in the advanced countries are commencing at the secondary stage; GLT Virginia tobacco was the most preferred. It is, therefore, imperative that not only for expanding the export market for unmanufactured tobacco but even for maintaining the present market (quantities-wise exports are decreasing) we should make our production more efficient, so as to face competition in the international market. It is from this point of view that the estimates of demand for green leaf threshing machinery made by the applicant by reference to the export of unmanufactured tobacco seems to us to be acceptable subject again to observations made in para 5.22. There is scope for using machinery not only in respect of the existing line of exports of unmanufactured tobacco, but also there are other prospects of growth. It seems important to notice that even John Fowler have allowed for a growth of 4% per annum for the next five years.

5.21 While on this aspect of the matter, it will be relevant to point out that Indian Institute of Foreign Trade conducted a study in 1976-77 regarding the prospects of export development programme of unmanufactured tobacco in EEC countries, and the finding of the study team is that while Indian tobacco is facing numerous problems in export marketing, it effective steps are taken to overcome these problems and difficulties, it should not be difficult to attain higher levels of exports and increase India's share in the international trade. The difficulties emphasised are:—(i) Low per unit yields (ii) Inadequate data on production cost, (iii) Lack of torecast of demand for tobacco (iv) Internal marketing based on the buyer's platform without element of competition and exploitation by large manufacturers of cigarettes, (v) lack of export incentives, (vi) Export duty on Tobacco and (vii) difficulties of shipping. According to the study while quantitatively there were fluctuations in the weight of tobacco exported to EEC from 1971 to 1975, there was an increase in terms of value indicating that the unit price for our tobacco export to EEC had gone from Rs. 8.05 per kg. in 1969 to Rs. 14.56 per kg. in 1976. This fact is already adverted to earlier. According to this study about 60% of India's flue-cured tobacco production was annually exported of which 46% goes to the EEC market. As such, the EEC was not only a major outlet for Indian flue-cured leaf but also an important market. As stated earlier, a number of development programmes to increase the production of the desired type of tobacco to meet among other things to changing needs of the EEC market were already in progress in the country. The actual production of flue-cured tobacco during the last 5 years has varied between 96.2 million kg. in 1970-71 to 159.1 million kg. in 1973-74. The figures of actual production during the year 1977-78 are not available but farm weight is The fluctuation in production was attributed to climatic condiestimated to be 130 million kg. tions, demand in the internal as well as export marke', competition from other agricultural crops in the area etc. It nevertheless indicated the potential for increasing the production of flue-cured leaf in India if the requisite demand for the purpose was forthcoming. According to FAO estimates consumption of tobacco in Community was likely to rise sustantially from 5,74,000 tonnes in 1969 (average) to 6,94,000 tonnes in 1980, while domestic leaf output within the Community during the same period was likely to go up by only about 16%. Therefore, leaf imports were anticipated to go to up by about 20% in 1980. The prospects of increasing export from India to EEC countries, therefore appear quite bright. Leaf tobacco prices in the major producing countries have been on the rise. On the other hand prices of Indian leat are comparatively low. The following table of prices of flue-cured stripped tobacco in U.K. emphasises the point.

Prices of Flue-cured Stripped Tobacco in U.K. (Pence per kg. exclusive of excise duty)

Country	 1969	1970	1971	1972	1973	1974	1975
U.S.A.	97	110	110	115	130	152	181
Canada	82	82	93	101	121	119	146

Prices of Flue-cured Stripped Tabacco in U.K.—Contd.

Country		1969	1970	1971	1972	1973	1974	1975
India .		55	62	64	62	73	88	104
Zambia		68	95	82	77	88	121	141
Malawi		73	77	86	84	97	121	132
Tanzania	•	53	51	60	66	82	110	119
Brazil .	•		66	53	62	71	86	112
South Korea		57	57	68	75	73	88	123
Thailand		66	64	66	60	. 75	99	119
From all count	ries	78.9	80.7	81.3	80.9	91.9	100.8	121.3

Source .- Tobacco Advisory Council, London and Field Survey quoted by Indian Institute of Foreign Trade.

The following table of prices of unmanufactured Tobacco in US Cents per kg. will also underline the same point:

Prices of Unmanufactured Tobacco

Country	1969 Average	1972	1973	1974	1975	Growth Rate 196575
USA (VFC 11-14 auction) .	163	188	194	231	220	5.1
Canada (VFC, Ontario Auction)	139	174	175	203	191	3.4
India (VFC, medium grade LBY 2, MIN wholesale, Guntur)	36	38	46	51	65	2.4
Malawi (VFC auction) .	105	- 110	154	164	155	5.6

Source -FAO, Rome quoted by IIFT.

If the prices of Indian leaf were kept at the existing levels it will help increase exports of Indian leaf to EEC and other countries and modernised threshing will help maintain the prices. The above study has identified stability of prices as the chief or most important element in our export strategy. Even the general trend in the world trade in tobacco is encouraging. During the decade ended 1975 world exports of tobacco showed an average annual growth rate of 4.8% in terms of quantity and 7.5% in terms of value. Indian exports during 70's rose at the rate of 6.7% in terms of quantity and 22% in terms of value. The Planning Commission has estimated foreign exchange earnings through export of unmanufactured tobacco at 105 Crores in 1978-79, 137 crores in 1983-84 and 150 Crores in 1980-81. The target for 1978-79 was reached in 1977-78 in terms of value although there is a decline in terms of quantity. Our aim should be to exceed the targets not only in value terms but also in quantitative terms. It is to realise these objectives that we should modernise our methods of processing tobacco and in this process the applicant's proposal for manufacturing tobacco processing machinery is likely to be of great help; this aspect of the matter has weighed with us considerably.

5.22 It is stated that the present installed capacity of GLT plant is adequate to meet the present requirements and that John Fowler can meet any further requirements and there was no need to instal any additional capacity. The present installed capacity is as under:

- (1) ITC, Bangalore 25 million kgs.
- (2) Subia Pillai, Bangalore 18 million kgs.
- (3) Mudi Luxmamiah, Guntur 15 million kgs.

In addition there is another plant owned by Premier Tobacco Packers having a capacity of about 15 million kgs. which is being installed. In all, therefore, the total capacity which can be availed

of is about 73 million kgs. Out of these plants, two plants are made by John Fowler while the remaining two plants are imported Cardwell machines. It is said that Cardwell machines are second hand machines. While determining the adequacy of the installed capacity, we have to refer to the demand not only by reference to unmanufactured tobacco but also by reference to the demand from existing cigarette manufacturers in the country. Part of the production of K.S. Subbiah Pillai and Madi Lakshmaiah is used by local cigarette manufacturers. Similarly part of the production by ITC, really speaking bulk of production is also used by its own manufacture of cigarettes. According to the applicant, the demand for primary machinery could be broken up as given in paragraph 2.42 earlier. Even assuming that the new units will not be set up so soon, the replacement demand in existing cigarette factories and introduction of green leaf threshing plants in those existing factories where they do not exist, cannot be lightly brushed aside. This will no doubt involve the disposal of the threshing plants in existing factories and also dispalcement of redrying plants which supply them dried leaves. But this problem of displacement has to be faced while introducing innovation or new technology. The existing consumption of raw tobacco for cigarette industry is estimated at 60 million kg and eventually this will have to be by mechanical threshing. Moreover, in respect of export of unmanufactured tobacco about 70 million kgs. per year are involved. The applicant has in its calculation taken only 50% of this amount for being subjected to the mechanical process. But while we are considering the adequacy of existing installed capacity, we have to see whether for a total turnover of 130 million kg. i.e. 60 million kg. for cigarette manufacture and 70 million kg. for export of unmanufactured tobacco, the existing available plants are adequate and the answer to that question is clearly in the negative. As is clear from the comments of ITC reproduced in paragraph 3.32 mechanisation of the process clearly improves the quality of the cigarettes. Similarly, there is no doubt about the economy of the mechanical process as far as the export angle is concerned. Ultimately, the process will have to justify itself economically but before it can do so, the consumer must have adequate choice of supplies and it is for this purpose that we are inclined to the view that creation of an alternative in this field will create a climate for reduction in cost and introduction of innovations which will ultimately benefit the consumer. As far as the adequacy of John Fowler is concerned, the tact that two major customers preferred to import second hand machinery from USA at prices which were attractive to them speaks volumes in this regard. More than one existing manufacturers pleaded for need for a choice of alternative supplier and one of the existing manufacturers pointed out how in respect of a major component of machinery, it secured the same from a local supplier at a much lower price than that quoted by John Fowler.

5.23 A vital consideration bearing on the introduction of mechanisation in this field is its impact on employment. There is large employment in tobacco industry, the estimates for 1977-78 being 17.07 lakhs equivalent to nearly 1% of the total employment in the country. processing has the distinction of employing large number of women. According to the 6th Plan document as many as 53,000 women were employed in tobacco processing during 1971. Most of this employment is on hand stripping. Introduction of mechanised stripping would lead to significant reduction in employment specially of women. On the other hand, the existing level of VFC export is round about 67 million kg. of flue-cured tobacco, 15% of which was alone GLT. It would take at least five years to cover the balance of nearly 50 million kg. to be subjected to the GLT process by a phased programme. Assuming that there were 50,000 workers now engaged in handpicking and that 10,000 of them have to be displaced every year for a period of five years, though they would pose a problem of rehabilitating them, there would be the additional advantage of 55,000 more hectares of land coming under VFC cultivation in the 5 year period giving an additional production of 35 million kg. of tobacco and the correspondingly greater number of farm hands which tobacco cultivation would involve over raising some other traditional crops. There would also be multiplier effect to the switching over to the GLT. Moreover, the persons employed in hand stripping are usually seasonal labourers employed only for three months in a year. The gains to the country in general by introduction of GLT process would far outweigh the loss of occupation to e fahehs m workers. The gains would range from helping to maintain the existing level of exports, rwich itselft would have a beneficial impact on the employment of nearly 75,000 farm labourers (involved in total tobacco growing) to increasing the number of farm labourers growing tobacco, tobacco cultivation being a highly labour intensive crop. The correct approach would, therefore, seem to be not in barring the introduction of improved technology but to plan well in advance for rehabilitation of seasonal workers who are likely to be displaced by the introduction of this process. Our fear is that if we fail to evolve the needed strategy not only to at least maintain the level of exports by resorting to mechanising the primary stage our exports will lag behind and this may by itself seriously impair the existing employment potential of the seasonal workers discussed above.

Cigarittos and Cigarillos

5.24 That brings us to the proposal relating to the machinery for the manufacture of cigarittos and cigarillos. In India, these products are known as Cheroots and Cigars. 15 mill on Kgs. of

tobacco are cosnumed by this industry having an annual production of 300 crore pieces of which 10 million pieces, according to one estimate, are cigars and the rest cheroots. According to the Cigar Manufacturers Association, Tiruchirappalli, however, the production of cigars was as under:—

19 72- 73	•	•	•	5.3 n	nillio	n pcs.
1973-74	•	•	•	4.4	,,	,,
1974-75		•		7.1	,,	,,
1975-76				5.2	**	,,

The figures of unmanufactured tobacco cleared for manufacture of cigars and cheroots are given in Table 40 para 4.62. There has been a fall in the production of cigars and cheroots over the years and the problem is to boost up the domestic demand and then to penetrate the export market. According to the applicant, even assuming that only 20% of the existing production is taken up for mechanisation it would require approximately Rs. 5 million worth of machinery per year upto 1983. Great reliance is placed by the applicant on the report of a Committee on Export of Tobacco Manufactures, appointed by the Government in 1965 to which a reference has been made earlier. Shri S. Ranganathan, then Secretary, Ministry of Industry and Supply was the Chairman of that Committee. The following paragraphs from that report appear relevant:—

"The Committee learnt that the manufacturers of cigars faced several handicaps, e.g. good quality cigar tobaccos were not produced in India and, therefore, they had to depend on imported stock which was always costlier. It was also represented by the manufacturers that it was essential to mechanise the manufacture of cigars in India and to reduce the cost of production so as to improve the competitive position of Indian cigars in foreign countries. Having regard to the advantages of large scale farming in reducing the cost of production, the Committee felt that the State Governments should take necessary action in consultation with the cigar manufacturers and encourage production of suitable existing varieties of cigar tobaccos in much larger quantities preferably in large size farms."

"It was also suggested that adequate incentives should be provided to the manufacturers to modernise the industry so that the products would be placed on world markets at competitive rates. Mechanisation was the only way to increase production and also to improve the packing of Indian cigars for export. It was pointed out that as only a small portion of the hand-made capacity was now available for export, production of machine-made cigars would not affect the prospects of hand-made cigars. On the other hand, it was expected that the surplus hand-made cigars, if any, thrown up in the home market, would find a ready market abroad. The representatives of manufacturers were optimistic about the future prospects of marketing Indian cigars in foreign countries if manufacture of machine-made cigars was encouraged and packing machines and materials of the best quality were available."

• • • •

"The Committee feels that the manufacture of machine-made cigars should be encouraged and provision made for the import of requisite equipment. The Committee also suggests that the manufacturers of cigars may jointly set up at an appropriate site a factory which could avail of the bonded facilities for manufacturing machine-made cigars for export. The Committee recommends that cigar manufacturers may be allowed to import machinery upto 60 per cent of the value of foreign exchange earned through the export of cigars as well as unmanufactured cigar tobaccos. In this connection the Committee also felt that the import of cigar making machinery should be considered on a higher priority and assistance should be given for importing them through the Industrial Finance Corporation or the Industrial Credit and Investment Corporation India."

It was also pointed out that Tobacco Development Board had already succeeded in growing high quality tobacco like quality filler and wrapper tobacco, useful for cigarettos and cigarillos, in Tamil Nadu and West Bengal.

5.25 On the other hand, the Tobacco Board has struck a pessimistic note. According to it the demand for export of cheroots and cigarittos had never been high and that during 1976-77 India exported cigars worth only Rs. 22,547 and it was not possible to forecast whether cigarillos will have better export potential. According to it, India is facing stiff competition from other tobacco producing countries and the long term potential cannot be said to be brighter due to propaganda and other measures taken by countries to discurage smoking due to health hazards. There were, however, imports by cigar manufacturers against REP licences to the tune of Rs. 15 lakhs in 1972-73, although in the next two years there was a decrease in trend. The details of imports of cigar machinery given in Annexure XX do not draw quite such a dismal picture. The pessimism of the Tobacco Board, therefore, has to be tempered by considerations referred to in the earlier paragraph. It seems to us that this is a field of export in which imaginative experimenting is likely to open up avenues which may develop in course of time. Machinery for cigarillos and cigarittos are not introduced in India so far, except by way of imports as shown in Annexure XX and the very fact that there have been imports would show that there is market for such machinery even for domestic purposes and if the avenues of supply of such machinery are enlarged, the demand would increase not only by producers for domestic consumption but also by producers for export. The proposal in so far as it relates to cigarittos and cigarillos will bridge the substantial technological gap in the sophisticated machinery to be manufactured. This part of the proposal did not bear any relation to demand for the end products for export purposes at present. It related to the demand to be created in the existing domestic market and in the export market.

Band Tobacco

- 5.26 That brings us to the part of the proposal relating to band tobacco. This did not depend at all on any existing demand from the existing or proposed units. But it is a field of demand aimed at elimination of waste and at better utilisation of our scarce resources. According to the applicant there was considerable waste of about 25% of tobacco leaves in the form of stem and of about 3 to 5% in dust or fines due to leaf handling. According to the applicant, even on the assumption that only 20% of the existing units venture to put up band tobacco plants to utilise the waste tobacco, it would mean around 5 plants of 50/100 kg. per hour capacity for five years. On that basis, machinery requirement of 4 million per plant would be involved per year. Our enquiries with the existing manufacturers did not yield any unanimous confirmation of the claims of the applicant. Golden Tobacco did not consider this part of the proposal feasible economically while I.T.C. and Godfrey Phillips showed some interest in plants that would make use of the tobacco that is wasted in the process although on that tobacco considerable excise duty had been paid. John Fowler have also evinced interest in this facility and claim that they would endeavour to manufacture lower value medium sub plants in about two to three years time by securing know-how from a foreign party, but they have not been able to give us any details of how they propose to accomplish this; it rests therefore, for the moment, as a mere wish.
- 5.27 According to DGTD, on the basis of 1 M.T. of tobacco required for 1 million pieces of cigarettes, present internal consumption of tobacco is of the order of 60,000 M.T. per annum. Based on 5% waste, there should be a loss of about 3000 M.T. of tobacco in the form of dust/fine particles, during tobacco leaf handling/processing. This waste, if converted into band tobacco, another 3000 million pcs. more cigarettes worth Rs. 30 crores may be produced which is a considerable amount. At present there is no manufacturer who is converting dust tobacco into band form. But the applicant has stated that enquiries for such plants have been made by the firms in Guntur, Bombay, New Delhi, Maharashtra etc. The feasibility of a plant for this purpose would depend upon its cost. In Europe, for instance, it was stated that a plant costing about Rs. 20 to 25 crores is handling waste tobacco for almost the whole of Western Europe. But the applicant proposes to to manufacture a plant at a cost of Rs. 60 lakhs with a capacity of 50/100 kg. per hour whose CIF cost according to the applicant would be Rs. 1 crore; such plants would be useful to the manufacturers of cigarettes in India who have their units spread over the country and whose waste has to be dealt with effectively at the sites of the existing factories. The proposal, in so far as the production of band tobacco manufacturing machinery is concerned, seems attractive. The applicant stated that its collaborators have updated the band tobacco technology considerably; they have sold 19 band tobacco plants of different capacities, out of which 7 have been sold in the last five years. A copy of the letter dated 20-4-78 received by the applicant company from its collaborators, giving information about the technical improvements carried out by them on the band tobacco technology and detailing the actual advantage of their band tobacco manufacturing system will be found in Annexure XXVI.
- 5.28 Some difficulties were pointed out regarding the scheme. A doubt was raised whether the Indian tobacco when treated by a plant like this would be useful like band tobacco elsewhere.

We were told by the representative of the applicant that samples of Indian tobacco were sent to Arenco AB for production of band tobacco and the band tobacco produced was found to be quite useful for blending under Indian conditions. There should, therefore, be no misapprehension on that score. According to the DGTD the price of tobacco had gone up three-fold; it should also be remembered that excise duty is already paid on such waste tobacco. It is necessary, therefore, to make economic use of available tobacco and this part of the applicant's proposal relating to band tobacco would effectively serve that purpose. Another difficulty posed was about the price of binder or adhesive to be utilised in the process. According to the calculation of Golden Tobacco price of binder required for 1 kg. of band tobacco would be Rs. 6.50 and that would make the whole process unecomoical. But according to calculation of Godfrey Phillips as well as the applicant binder worth 50 paise was only required for 1 kg of band tobacco. Discussion with the parties revealed that this depends entirely on the process involved; the process envisaged by Godfrey Phillips and the applicant, although not identical, requires binder to a very limited extent and even this limited quantity would not have to be imported but procured locally. It was pointed out that the process Godfrey Phillips had in view was BL process where no binder was used and that in the process envisaged by the applicant company small quantity of binder i.e. CMC was to be used which was quite different from the binder referred to by Golden Tobacco. A third difficulty was the one advanced somewhat vaguely by Vazir Sultan viz. that silica content in residual waste was so high as to make reconstitution not worthwhile. This difficulty was confined only to subcured tobacco and hence not applicable to flue-cured tobacco, or any other type of tobacco. This difficulty was not apprehended by any other party and the other parties had examined the proposal in greater depth than Vazir Sultan. Moreover the sample report of the band tobacco produced from Indian waste also did not indicate this difficulty.

- 5.29 It may be pointed out that the Directorate of Tobacco Development, Ministry of Agriculture and Irrigation, has also supported this part of the proposal. According to it, out of the total waste of 25% in the handling of raw tobacco, even after allowing of 10% loss due to driage at various stages there was still 15% physical waste of tobacco in the form of scrap, dust etc. On an annual production of 120 million kg. of VFC tobacco, the scrap, waste and dust therefrom were estimated at 18 million kgs. Besides stem and stem bits would also be available to the extent of about 10 million kgs. Thus from VFC tobacco alone the total annual availability would be about 30 million kgs. There is clearly scope according to the Directorate for further processing this waste tobacco into homogenised tobacco sheets or flakes. The process for making homogenised tobacco sheets or flakes is rather sophisticated and indigenous technology for this purpose is not available. Therefore, advance in this field would be useful for utilising the tobacco waste for production purposes. This argument would be equally valid for tobacco used in the cigarette making factories. Band tobacco may also have an export value. It is very low in tar and necotine content and has no pesticide residue at all. These qualities may be valued highly in a country especially like FRG where they are experimenting with blending various types of tobacco as fillers for cigarettes in varying proportions.
- 5.30 Our discussions with some of the present manufacturers of cigarettes also fortifies our view that this part of the proposal is worth pursuing. According to one of them, on an investment of Rs. 89 lakhs which would include plant and machinery worth Rs. 80 lakhs including the cost of installation etc., a plant (of the type of CID-DIP-612) with a capacity of 150 kg per hour could be set up, and such a plant could produce in one shift 2,88,000 kgs., in two shifts 5,76,000 kgs and in three shifts 8,64,000 kgs., and the sheets so produced could be used as a part of the blend ranging between 6 to 10%. The process involved is a slurry casting reconstituted tobacco sheet process, technically known as the BL process and utilises the natural binder or gums in the tobacco to provide the strength and adhesion required to form the tobacco sheet. Stem from stemmery, dust, scrap and fines from the manufacturing process are ground into a coarse powder at the processing plant. The powder is mixed with the appropriate amount of reactants. This forms a thick paste or slurry. The slurry is aged in tanks in order to allow the reactants to work on tobacco by-products. After the proper amount of time, the slurry with 15% to 20% solids is refined and uniformly applied to an endless stainless steel forming belt. The slurry films travel on the stainless steel belt through a series of ovens for initial drying. In the final step the material is transferred to a conveyor to complete the drying process. The sheet leaves the drying conveyor after drying at a sheet weight of 100/150 gms./ square meter. It is then cut into small pieces and kept ready to use in the tobacco blend. The original qualities of the tobacco are preserved and the aroma is not lost. The project is expected to pay back within 4 years. In the light of this the proposal of the applicant to set up facilities for manufacture of band tobacco or reconstituted tobacco sounds extremely reasonable and plausible; the applicant hopes to bring down the capital cost of setting up
- 5.31 To sum up, the proposal of the applicant, in so far as it relates to the manufacture of cigarette making machinery for new units could be justified on grounds other than expected increase.

in demand. In so far as the proposal relates to the replacement of machinery of existing units and also their need for spare parts, the proposal deserves consideration. Same is the position with regard to the proposal for the manufacture of soft cup packing machinery. In so far as the proposal relates to tobacco processing machinery, it deserves serious consideration by reference to existing cigarette manufacturing facilities and the export of flue-cured virginia type tobacco. In so far as the proposal is concerned for manufacture of band tobacco, and for manufacturing of cigarittos and cigarillos, it deserves exploration from a long run point of view former for better utilisation of available resources and latter for that purposes as well as with an eye on exports.

Collaboration Arrangement

5.32 After examining the background against which the proposal was made and the fresh suggestions for implementing it, the entire proposal may be examined in the light of the collaboration arrangement between the applicant and M/s. Arenco AB, Siktgatan-11, Stockholm, Vallingby-1, Sweden. Originally the applicant had proposed fresh foreign capital investment of Rs. 39 lakhs out of a total issue to be made of Rs. 58.5 lakhs which would have made the overall foreign investment of 70.13 % as against 75% which was then existing. The original proposal was considered by the Foreign Investment Board at its meeting on 26-9-1972.

5.33 The terms for the collaboration as examined by the Ministry of Heavy Industry were as under:—

(a) if the foreign collaborator proposes to invest in the equity capital of Indian Co:

(i) the amount of foreign equity investment . Rs. 39,00,000

(ii) what percentage this would be of the total capital of the Indian Co.

70.13 of total equity after the proposed new issues.

(iii) whether the foreign investment would be in the form of cash or in kind In

In cash

(b) Royalty and other payments:

(i) Technical know-how fee

Rs. 21 lakhs

(ii) Royalty payment (lumpsum) No of instalments, if any

. Nil

(iii) Fees for technical consultancy services, if any . Nil

(iv) Other payments, if any (for using patents, trade marks etc.)

Research and Development contribution Rs. 1 lakh per annum.

(c) Whether recurring royalty is proposed and if so, the

No

(d) Duration of the agreement

Initially for five years and to continue thereafter subject to either party terminating it by giving six months in writing.

According to this arrangment the applicant had the right to export Arenco products to all countries except where Arenco had already existing licenced agreements. The foreign collaborator was also agreeable that the technical know-how/project design/engineering design could also be made available to other Indian parties should it become necessary on terms mutually agreeable to all the parties concerned including the foreign collaborator and subject to the approval of the Government. The foreign collaborator had no other collaboration with any other party in India for the same or similar products. The final decision was deferred and there was an inter-Ministerial meeting on 19-10-72 and in the light of the deliberations of that meeting the applicant was advised to revise the proposal on the basis of growth of 5% in the demand for cigarettes in the country.

5.34 For a proper understanding, the original and revised proposals are given together as under:

	Original propos	al	Present proposal
Additional foreign investment	Rs. 58 lakhs i.e. of the additional of Rs. 98,00,000	l capital	Rs. 39 lakhs i.e. 66% of the additional of Rs. 58,50,000
Total foreign share holding	67.5%		70.13%
Capacity	475 lakhs p.a.		240 lakhs p.a.
Value of imported prototype plants	Rs. 13 lakhs		Rs. 11 lakhs
Requirements of imported components as	lst year	30%	20%
per phased mfg. programme	2nd yr.	20%	10%
	3dr yr.	10%	5%
	4th yr.	5%	5%
	5th yr.	5%	5%
Requirement of imported raw materials	2% p.a. for all t years.	he five	0.83% in 1st yr. brought down to 0.47% by the 5th yr.
Research & Development contribution .	1.5 lakhs p.a.		Rs. 1 lakh p.a.
Export commitments	Rs. 220 lakhs in	5 yrs.	Rs. 150 lakhs in 5 years.

The revised proposal was approved by the Foreign Investment Board on 20-10-73. The FIB laid down the condition that the applicant would export the entire range of their product worth Rs. 150 lakhs during the period of 5 years out of which Rs. 35 lakhs would be tobacco/cigarette making machinery, that the appliant will bring down foreign equity holding in accordance with FERA, and that the applicant would take suitable action for execution of legal bond for export obligation with the Office of the CCI&E. The applicant did give an undertaking that they would export on this basis. The proposal was also approved by the Min. of Heavy Industry by letter dated 12-12-73 as amended by letter dated 24-4-74.

5.35 The Ministry of Heavy Industry approved the proposal on the following conditions:—

- 1. A down payment of Rs. 21 lakhs towards cost of supplying drawing, engineering documentation and technical know-how subject to taxes if and to the extent applicable;
- 2. Research and development contribution to Rs. 1 lac. per annum for a period of 5 years.
- 3. Capital participation by the foreign collaborators to the extent of Rs. 39 lakhs in the total additional issue of Rs. 58.5 lakhs. Additional equity will be 66-2/3% foreign and 33-1/3% Indian. The resultant total foreign share holding would be Rs. 70.13% in this case.
- 4. No royalty payment
- 5. Duration 5 years.
- 6. Import of prototype plants will be subject to the clearance from the DGTD and will not be sold in India at least for a period of three years if allowed import of the same.
- 7. Export obligation of Rs. 150 lakhs worth machinery (entire range of machinery preduced by them) which should include at least 35 lakhs worth of tobacco and cigarette making machinery to be manufactured under this collaboration, over a period of 5 years.

According to the letter from the Ministry of Heavy Industry dt. the 12th Dec. 73 the collaboration agreement was acceptable subject to the condition set out. Terms of this letter were modified by letter of Heavy Industry dated 24th April, 74. Changes effected by this letter were as under:—

- "The foreign collaborator shall be paid a lumpsum of Rs. 1,502,659 Sw.Krs. (Fifteen lakhs two thousand and six hundred fiftynine only Sw.Krs. (subject to applicable taxes, for drawings designs and documentation as under:—
 - (i) Sw.Krs. 653,330 after signing of the agreement.
- (ii) Sw.Krs. 457,331 on commencement of commercial production.
- (iii) Sw.Krs. 391,998 one year after, the commencement of commercial production."
- 5.36 Quite a lot of water has flown under the bridge after this. Septt. of Company Affairs had on 8-6-76 rejected the proposal of the applicant under the MRTP Act on the ground that the facilities in question were not available to large houses. The applicant also had to reduce its foreign equity to 51% under the FERA. But it had to export a minimum of 10% of its total annual turn-over within a period of two years from the date of commencement of approval of its scheme of dilution of foreign equity by the Reserve Bank that it would not be in a position to undertake the exports as required and that it would be willing to dilute its equity so as to bring down the foreign holding to 40% as required under the FERA so as to be free from the export obligation. We were told by the applicant's representatives that its reluctance to undertake export obligation was due to some drastic consequences that would follow in the event of their non-fulfilment of the obligation. The collaboration arrangement as originally proposed thus stood modified in a significant manner. As a matter of fact the agreement will have to be vetted again by the authorities concerned if the proposal of the applicant company is cleared by the Government under the M.R.T.P. Act subject to such conditions as it may lay down. The implications of this change on the export aspects of the proposal will be considered separately but this change has to be borne in mind while examining the foreign collaboration arrangement.
- 5.37 As far as the collaboration arrangement is concerned, the first question to be decided is about the standard of technology. The proposal envisages manufacture of machinery used in the cigarette industry, tobacco processing machinery, machinery for manufacture of cigarillos and cigarettos and equipment for making band tobacco from tobacco waste and it is stated that know-how for the complete range of machinery, i.e. machinery for the manufacture of both primary and secondary machinery was available only from Arenco AB, Sweden. It is also stated that Arenco AB, Sweden were a constituent of the machinery division of Swedish Match Company which held nearly 47% of the applicant's equity capital. It is also pointed out that Arenco AB, Sweden who were already well known for cigarette making machinery, complete cigar machinery and band tobacco plants had recently acquired M/s. Cardwell of the USA, internationally known for their expertise in tobacco processing machinery, giving them thereby access to the latest technology in tobacco threshing plants. It is also pointed out that they had already a collaboration with Arenco, BMD, another constituent of the Machinery Division of Swedish Match Company, for the manufacture of wide range of leather tanning and finishing machines which was approved by the Government. It is stated that in view of the Swedish Match Company's interest in the applicant's equity capital and their close association with their Machinery Division, the applicant is confident that they will be able to implement the project in question successfully with the Swedish Company's technical assistance and cooperation and their own established technological skills.
- 5.38 It is also stated that the collaborators will pass on to the applicant, for no additional charge, complete technical information and literature on new inventions and processes developed by them on the manufacture of tobacco machinery during the tenure of the collaboration agreement. In so far as the collaboration is concerned, the know-how will include the information, material and documents in the possession, power or control of Arenco or any of its associates or affiliate companies and relating to tobacco machinery, details of which are already given in para 2.17 supra.
- 5.39 It is also stated that although the agreement with Arenco AB was signed nearly four years ago and some of the costs had escalated since then, they were hopeful of persuading their collaborators to accept the same lump sum payment of Sw.Krs. 15,02,659 as know-how fee for this project. As far as the tobacco processing machinery was concerned, the Cardwell know-how available now would definitely be an improvement on the know-how which was available to John Fowler

till 1972 when their agreement with foreign collaborators M/s. Voks Cardwell of UK expired. A copy of the letter dated 7-4-78 from Arenco to Vulcan Laval giving details of their leaf processing system which the applicant proposes to introduce is made Annexure XXVII. It is also not without significance that notwithstanding the existence of John Fowler, permission had been granted for REP licenses for import of tobacco processing machinery from USA by Modi Luxmi Ramiah of Guntur and the performance of this machinery, which was in fact second-hand machinery from USA, had been much better than the performance of machinery supplied by John Fowler according to an existing cigarette manufacturing unit. If the performance of reconditioned second-hand machinery was better than the new machinery supplied by John Fowler, it stood to reason that new machinery manufactured by utilisation of upto-date technology of Cardwel, USA would definitely be a great improvement on the available technology in this country. Another existing cigarette manufacturer stated that it had introduced certain machinery parts like conveyers, made by local parties and at prices much cheaper than those quoted by John Fowler. In regard to the machinery for the manufacture of band tobacco and cigarettos and cigarillos there is no basis for comparison because there has been no such machinery used in India except machinery for cigarettos imported on a small scale. As far as band tobacco is concerned, if the plant could be manufactured for ex-factory price of Rs. 60 lakhs it would excite interest from several potential customers. The one doubt that is cast is about the technology relating to soft cup packing. The suggestion was that the technology in connection therewith is twenty years old and there was not much demand for the same. On the other hand, Molins of India have produced a machine based on indigenous technology which could be In our view, the comparative superiority of the rival technologies supplied to the Indian users. should be left to be decided by the free choice of customers; there should be no deterrent to the acceptance of the technology as such. What is more, we have to consider the range of technology as a whole. There is some merit in the contention put forward by the applicant that their collaborators in Sweden are the only parties with the whole range of machinery required under the project. The collaboration arrangement, therefore, could not be taken exception to on the ground of standard of technology involved.

5.40 The next important aspect of the arrangement is the price to be paid for the know-how. The authorities concerned have earlier accepted this part of the proposal but it must be remembered that the proposal was accepted as a whole and it would not be correct to separate one part from the other. It seems to us that it will not be proper to separate the payment of Rs. 30 lakhs from the export obligation of Rs. 150 lakhs including cigarette machinery worth Rs. 35 lakhs over a period of five years. Moreover, it is pointed out that Molins of India have paid only £5,000 for their knowhow and that was because of the fact that the foreign collaborator was a major equity shareholder of Molins of India. Since Arenco AB of Sweden are the major equity shareholders of the applicant company it can be equally expected that it will be in the interest of the applicant as well as its major equity shareholder that the price for the know-how is kept to a minimum because, in any case the shareholder will get the benefit of the use of the know-how through dividends and strengthening of the finances of the company as a result of enlargement of its activities. While the export obligation and the foreign exchange implications of the proposal will be considered subsequently, it would be enough to state at this stage that, shorn of the export obligation the proposal to pay an amount of Rs. 30 lakhs as price of know-how seems to us to be somewhat exorbitant. It was suggested to us that even the applicant got the technology from its collaborators without any payment in respect of other activities and that because the foreign equity was going to be reduced to 40% the price for the know-how for cigarette making and tobacco processing machinery could not be considered to be unreasonable. But the price for the know-how has necessarily to be examined in the context of other foreign exchange outgoings and incomings and also in the context of payments made by parties similarly situated.

Foreign Exchange Aspects

5.41 With regard to the foreign exchange aspect it will be convenient to start with an appraisal of the applicant's performance in regard to foreign exchange hitherto. The account is constructed as under:—

1.	Dividend (subject to tax) (1970-71)					٠.	Rs.	72,38,092
2.	Interest on loan					•	Rs.	2,53,185
3.	Royalty & Technical fees .						Rs.	15,99,479
4.	Raw material						Rs.	9,629
5.							Rs.	1,97,19,318
6.	Drawings						Rs.	2,96,296
7.	Foreign Exchange incomings through	gh e	xports (1973	-77)		Rs.	39,27,146
	Incentive payments (1973-77) .						Rs.	7,18,815

It was claimed that the bulk of the foreign exchange expenditure was on account of import of key essential inputs to their manufacturing programme which has enabled them to serve priority sectors of the national economy with sophisticated machinery which otherwise would have had to be imported at much higher outlays in foreign exchange. But the fact about the disbursements in terms of foreign exchange remained and has necessarily to be borne in mind when assessing the foreign exchange implications of any new proposal. Due allowance must be made for tax payable on dividends interest and technical fees. To that extent foreign outflow will be reduced. An approximate credit of Rs. 20/25 lakhs can be taken for this purpose.

5.42 As far as the project under consideration is concerned, DGTD had calculated the likely foreign exchange outgoings on the earlier proposal at Rs. 113.66 lakhs, as under:—

1.	Royalty Payment			•	,	•	•	Nil	
2.	Lump sum technical know-hov	w dow	n pay	ment				Rs. 21.00 lak	.hs
3.	Dividends (estimated dividend this project at 10%)	s on a	dditi	onal fo	reign	equit	y for	Rs. 23.40 ,,	
-, 4,	CIF value of imported CG	•						Rs. 22.00 ,,	
5.	CIF value of imported raw ma	aterial	l					Rs. 4.19 ,,	
6.	CIF value of imported compor	nents			•		•	Rs. 25.57	
7.	CIF value of imported prototy	pes						Rs. 11.00 ,,	,
8.	Other payments/R&D paymen	nts	F3.6	ha				Rs. 5.00	,
9.	Services of two foreign experts	for th	iree y	ears	}		-	Rs. 1.50 ,	•
			12					Rs. 113.66,	,

With reference to the proposal as it stands today the foreign exchange outgoings flowing directly from it will be as under:—

1.	Royalty payment				N	ïl	
2.	Lump sum technical know-how down payment				Rs.	30.001	akhs
3.	Dividends				Nil		
4.	CIF value of imported CG	•			Rs.	5.50	,,
5.	CIF value of imported raw material .				Rs.	46.05	,,
6.	CIF value of imported components .			•	Rs.	25.57	
. 7.	CIF value of imported prototypes (as taken by I	OGT	D)		Rs.	11.00	,,
8.	Services of two foreign experts for three years (TD)	as tal	sen b	y DG	Rs.	1.50	,,
					Rs.	119.62	,,

If the scheme of finance envisages increase in the holding of Indian shareholders by issue of additional capital only to Indian shareholders, there will be no additional liability for the payment of dividend on account of this proposal.

5.43 As against this, the realisations of the applicant on account of the project are expected to be Rs. 47.40 lakhs. in the first year, Rs. 101 lakhs in the second year, Rs. 123 lakhs in the third year, Rs. 160 lakhs in the fourth year and Rs. 240 lakhs in the fifth year. It is stated that there will be no import of components from the fifth year of production and the actual production will reach a total of 55 machines depending upon market demand from year to year.

Export Commitment

5.44 The applicant at the outset had agreed to an export of Rs. 35 lakhs worth of cigarette making machinery in the first five years of the project but subsequently it was unwilling to give any

export commitment. Later, however, the applicant relented a little and reiterated its willingness to export tobacco processing machinery and their components of a total value of Rs. 35 lakhs over a period of 5 years with the assistance of and in coordination with collaborators, provided—

- (i) the programme of manufacture of the entire range of tobacco machinery as proposed by it was accepted by the government in toto;
- (ii) there were no penalties imposed on it due to failure to honour its export commitment owing to unfavourable conditions in the international market or other factors beyond its control.

After the public hearing the applicant company relented still further and expressed its willingess to undertake obligation to export cigarette machinery and tobacco processing machinery worth Rs. 50 lakhs (instead of original Rs. 35 lakhs) in the five years and to make good the deficiency, if any, by exporting $1\frac{1}{2}$ times the value of shortfall in terms of machinery other than cigarette machinery. This was in addition to Rs. 110 lakhs worth of machinery other than cigarette machinery which it was called upon to undertake and was willing to undertake to export in five years for seeing the collaboration agreement through.

5.45 Having regard to the foreign exchange outgoings implicity in the proposal, it seems to us that before the proposal can be accepted, the applicant must accept the export obligation commensurate on the one hand with the foreign exchange outgoings and on the other with the short term and long term benefits accruing to the applicant as a result of the proposal. In case the applicant is able to persuade its foreign collaborator to do away with the down payment altogether the export obligation should be correspondingly While we are aware of the difficulties faced by the exporters in a sensitive and sophisticated market like that for cigarette making machinery and tobacco processing machinery, we do not see why the applicant should not be able to make a headway if Molins of India could make some headway in this regard. They had exported their production to the extent of 30% in the year 1977. If Molins of India had got the support of their parent company, viz., Molins of UK, the same advantage was available with the applicant because its collaborator and major shareholder is also an important unit in the world market for cigarette making machinery and tobacco In case the applicant is able to satisfy the Government that the target of processing machinery. export obligation could not be achieved at least in the initial years by reference to cigarette making and tobacco processing machineries, the Government may consider the formula earlier considered, viz., that of export obligation for the complete range of the goods produced by the applicant with a basic quota for the goods to be manufactured under the present proposal, but after the project is fully implemented, i.e. after 5 years, the export obligation should be a prescribed percentage of the goods manufactured under the present proposal. Considering that the unexecuted export orders with the applicant on 1-1-78 amounted to little more than a crore of rupees, export obligation of a reasonable magnitude cannot be called excessive. It was stated that the outstanding export orders related to the world bank contracts which were to be executed in India but payment in respect of which was to be received in dollars. But these contracts were also likely to continue for some time and in any case the applicant company with its influential global connections should not find it difficult to make export effort of reasonable dimension. The formula which should be applied should incorporate the features of the original scheme of sanction for the collaborator's agreement which was given as early as 1974 and also make allowance and adjustments for the fact that by reason of sanctioning the proposal. the Government would be allowing an undertaking to which Part I of Chapter III of the Act applies, to enter into a field which has not been made specifically available to such undertakings as a part of Government policy. It should also allow for the fact that as a result of FERA, the applicant company will cease to be a foreign majority company and its inter-connection with WIMCO will be considerably weakened. But all things considered, in our view this facility should be extended to the applicant Co. only if it accepts reasonable export obligations. The proposal is worth pursuing only on two grounds, viz. that it will help weaken the present monopolistic structure of the market for cigarette machinery and it will help the export performance of the country, first at present in regard to export of unmanufactured tobacco, and in none too distant future in regard to tobacco products and cigarette manufacturing and tobacco processing machinery. The applicant company's direct contributes to this export effort is an essential condition for acceptance of its proposal, not only for reasons which underlie its acceptance but also because of throwing upon this field to a large house, a field which is not ordinarily open to it.

Scheme of Finance

5.46 The next aspect to be considered is the scheme of finance. With the passage of time since the scheme was first contemplated, there has been considerable change in this regard. The paid up equity capital of the applicant company at the time the proposal was first made was Rs. 148.5

lakhs, out of which Rs. 104.5 lakhs was held by foreign companies and individuals amounting to 70.41 per cent of the equity capital. According to the original proposal, the applicant propose to go in for additional issue of Rs. 98 lakhs, out of which Rs. 58 lakhs was to be issued to the foreign principals and the balance of Rs. 40 lakhs was to be issued to the Indians. The foreign shareholding in consequence of this scheme was to be Rs. 67.5% and this was based on the ultimate production worth Rs. 475 lakhs. After the proposal was revised, the applicant proposed an additional issue of only Rs. 58.50 lakhs out of which the foreign share was to be of the order of Rs. 39 lakhs and the balance was to go to Indians. The ultimate increase in production was to be Rs. 240 lakhs and the resultant foreign shareholding was to be 70.13 per cent. Thereafter under the FERA the applicant had agreed to reduce the foreign holding of its equity to 51 per cent and that was on the assumption that it would be able to export minimum of 10 per cent of its annual turnover within a period of two years commencing from the date of approval by the Reserve Bank of India. The claim of the applicant was that it would be able to meet the financial obligations flowing from the present proposal by raising of the additional capital of about Rs. 85 lakhs which it would secure by issue of additional equity at the premium of Rs. 5 per share.

- 5.47 According to the modified scheme of finance put forward by the applicant company, the finance would be adequately available:
- (a) through partial plough back of profits on existing activities;
- (b) plough back of profit from tobacco project;
- (c) bank borrowing for part financing of working capital well within the Tandon Committee norms.

For this project the company required net finance of Rs.57 lakhs which according to the applicant was easily available from its own fund by way of retained profits even from the current line of business during the years 1979-81. The project itself would plough back Rs. 33.5 lakhs upto 1984 according to the applicant. The cash flow statement on the basis of which these claims were made is made Annexure to this report. The projected profit and loss account and balance sheet of the applicant company for the years 78, 79, 80, 81, 82, 83 and 84 are collectively made Annexure—.

- 5.48 The applicant who obviously sought shy of their export obligation had second thoughts on this scheme and informed the Reserve Bank of India that it was not in a position to undertake the export obligation and that it was willing to reduce the foreign holding of its equity to 40%. According to the company it proposed to raise the additional capital in two stages as follows:—
 - Phase I: Reduction of foreign equity to 51%.
 - Phase II: Further reduction of foreign equity to a level not exceeding 40%.

It proposed to raise 138.1 lakhs approximately by issue of fresh capital and the additional capital was proposed to be utilised inter-alia for the following major purposes:—

- (a) To finance government approved diversification schemes pertaining to the manufacture of foundry machinery and hydraulic presses, etc.
- (b) To finance R&D programmes undertaken in the company's factory which have received recognition from the Department of Science and Technology, Government of India, but in respect of which the Department has laid down certain conditions for the recognition.
- (c) For modernization and updating of manufacturing resources with a view to achieving cost reduction and quality improvement and thereby maintaining competitiveness and continuity of supply of high quality machinery to our customers in India and abroad;
- (d) To finance a number of manufacturing schemes, besides tobacco machinery, under the Company's active consideration, e.g. larger and more sophisticated range of machinery for the diary, vegetable oil, power generation and foundry industries, and specialised fabrication in anti-corrosive materials of construction for defence, atomic energy, fertiliser and chemical industries.
- (e) To finance debts and improve the ratio of total assets.

It was also stated that the day to day requirements of the applicant including those flowing from the implementation of the new proposals will be secured from normal financial channels. The foreign exchange requirements were to be financed through foreign exchange banks for which application has to be made to concerned Government authorities. A copy of the letter dated 13-5-78 addressed by the applicant company to the Foreign Exchange Division, Reserve Bank of India, is made Annexure XXX. The applicant company also planned to finance its remaining requirements through internal resources viz. a partial ploughback of Rs. 1 crore over the next three years by way of depreciation and profits and a limited incrase in the bank borrowing to the extent of Rs. 40 lakhs.

ICICI Loan

- 5.49 In addition, the applicant company had applied in the beginning of 1978 for loan from ICICI of Rs. 50 lakhs for the following purposes:
 - (a) To finance programme of replacements and rationalisation of factory equipments.
 - (b) To finance programme of research and development being undertaken by the company.
 - (c) To reduce dependance on short term borrowings.
 - (d) Government approved diversification programmes including Tanning machinery, Foundry machinery, Hydraulic presses.
 - (e) Tobacco machinery project.

It was agreed that the Tobacco project need not be considered for the prupose of the loan since it was not cleared by the Government so far. The ICICI by its letter dated 27-4-1978 agreed to provide a loan of Rs. 50 lakhs to meet a part of the cost of diversification scheme and a line of credit in rupees upto Rs. 50 lakhs to finance sales of the company equipment on deferred payment basis. One of the conditions for the granting of the laon—was that the company did not undertake any new project or expansion without the prior approval of ICICI during the period of the loan. ICICI retained the right to appoint a nominee on the company's Board of Directors at any time during the period of the loan. The rupee loan was repayable in 12 half-yearly instalments commencing from the second half of 1980 and ending in the first half of 1986. A part of the rupee term loan from the ICICI could be convertible into ordinary shares of the company on terms to be decided later. The company agreed to a review by the ICICI of the progress of the implementation of the scheme and the requirements of funds in the second half of 1979.

5.50 The original scheme of finance was approved by the Department of Economic Affairs, Ministry of Finance and the Department of Banking of the same Ministry. It was pointed out that arrangement for long term finance will have to be made by the applicant company not with the banks but with the financial institutions. We have examined the scheme of finance which has utlimately been evolved and we do not see any objection to any aspect of the same. The procedure for reduction in foreign equity holding will have to be screened by other authorities and they will no doubt do so bearing in mind the national interest. In regard to foreign exchange requirements, apart from the considerations detailed above, we do not see anything exceptionable in the scheme. Regarding the working capital, at one stage it was felt that the projections of the applicant were not strictly in conformity with the cannons laid down by what is now called the 'Tandon Committee'. The applicant has given the following explanation about its current capital requirements and its resources:

"The Tandon Committee had suggested two methods of calculating bank finance to be made available for meeting the working capital needs of companies and had recommended that while companies could, to start with, follow the first method in arranging their working capital funds, they should gradually limit their total current liabilities including bank borrowings, to a level not exceeding 75% of their current assets, as per the second method of financing working capital.

As well be clear from the enclosed statements, in 1977, Vulcan Laval satisfied the Tandon Committee norms under the first method. The Company's borrowings however, exceeded the norms under the second method by Rs. 31 lakhs (roughly 12% of the bank borrowings). It may be noted here that the company is engaged in the execution of turn-key projects spread over a period of 6/18 months per contract. For execution of such capital intensive projects, the Company receives advances from its customers for procurement of stocks. The amount of such advances as on 31st December, 1977 was Rs. 86 lakhs. It was the inclusion of these advances in current liabilities that resulted in the Company not satisfying the Tandon Committee norms under the second method in 1977.

After the proposed share issue in 1978, Vulcan Laval will be well within the norms prescribed by the Tandon Committee under the second method as well."

We have considered this explanation—the workings of the capital according to the two methods which are made Annexure XXVIII—and also the cash flow statement which is made Annexure X and we apprehend no difficulty about the finances by the applicant insofar as working capital is concerned. The modified scheme of finance as proposed by the applicant, is, therefore, acceptable subject to the condition that it should reduce foreign holding of its equity according to the requirements of FERA and the loan from financial institutions should be subject to convertibility clause.

Product Mix

5.51 The next question to be discussed is about the product mix. As will be seen from paragraph 2.02, the applicant company included certain specific items of machinery in its proposed product mix. It was pointed out to them in course of the inquiry that the range proposed did not include the machinery for filter tips and that having regard to the prevailing consumers' preferences, the filter tips were more in demand than ordinary cigarettes because of the less risks of medical hazard. The applicant company has now stated vide its letter dated which is made Annexure XXIX that it is willing to include the machinery for filter tips in its range. On the other hand, it was pointed out to the applicant company that machinery for the manufacture of cigarette trays and cutting machines may not be quite useful for the present Indian conditions, because the machines used for manufacture of cigarettes which are in use in this country and which are likely to be used in this country for some time were comparatively slow moving machines and it was not necessary to introduce the tray filler machines. It was also pointed out that for the same reasons it was not necessary to have automatic cutting machines. The applicant company has now agreed to exclude these items from the range of their project. It was also stated that these changes in the range will not affect the fees for know-how charged by the non-resident supplier and that this aspect of the matter may further be clarified when the collaboration is considered by the appropriate authorities. Whether these changes in the product mix would entail any change in the total cost of the project, could not be ascertained because the intimation about the applicant company's willingness to effect these changes was communicated to the Commission quite late. This aspect of the matter will have to be examined at the time of final decision on the project by the Government. It was further clarified that the applicant company was not interested in introducing cellophane packing for cigarettes as such and that only cellophane packing in which it was interested was cellophane packing for cigarettes and cigarillos. It seems to us, subject to these clarifications, the range of products as indicated by the applicant company, is adequate and in conformity with the requirements of the country, and the whole range as proposed should be permitted to the company. This should include even items like cigarette making and cigarette packing machinery in respect of which performance of Molins India is quite up to the mark. In order that process of competition should have full play in this vital area, it is necessary that the range as proposed by the applicant company should be permitted. The applicant company has given a detailed programme of the manufacture of several items in the first five years. We are of the view that subject to range being fixed, the number of items to be manufactured from year to year by the applicant company should be left to its best judgement in the light of prevailing situations of supply and demand. As a matter of fact it will be conducive to the climate of competition if all the participants including the applicant company and the existing manufacturers are left free to mould their programmes of production according to their judgement of supply and demand and according to their ability to supply them at the rates acceptable to the customers. As stated earlier, an undertaking for the manufacture of industrial machinery is essentially a multiproject undertaking and just as it helps competition if an undertaking is able to switch over from one product range to another, afortiorari in the same range of products, the undertaking should have full freedom to mould its programme of production according to the requirements of the market.

Public Interest-Section 28

5.52 The applicant, as pointed out earlier, has claimed that it fulfils the requirements of Section 28 of the Act. Even at the risk of repetition it will be pertinent to set out briefly the grounds on which the applicant relies. Firstly, the applicant entering the field of manufacture of tobacco machinery will offer an alternative to the buyers of these items, to the two existing manufacturers of tobacco machinery in India, viz. John Fowler (India) Ltd., and Molins India Ltd., and hence "act as a countervailing force to the concentration of economic power". According to the applicant, John Fowler (India) is the only manufacturer of processing plants while Molins India Ltd. is the only manufacturer of cigarette making machines. Secondly, according to the applicant, its scheme will ensure that technical and technological improvements are effected in the trade, as its proposals are based on current and improved designs in the fields of tobacco machinery. Thirdly,

neither John Fowler nor Molins nor any other manufacturer in India make machinery suitable for the manufacture of cigarillos and cigarittos, which were considered to be exportable products by the Ranganathan Committee on Export of Tobacco Manufactures, appointed by the Government of India. The applicant's project, it is claimed, will contribute to the creation and stepping up of export surpluses and organize the trade in such a way that its efficiency is progressively increased. Fourthly, an attractive feature of the proposal, according to the applicant was that the production could be started in its existing factory at Pune and gradually expanded in step with demand. Its investment will be much lower than if an entirely new undertaking were to be set up for the manufacture of such machines. According to the applicant a separate facility, like the one proposed at a greenfield site would cost not less than Rs. 1.5 crores. That means it is able to offer an economic alternative to the customers who would otherwise be entirely dependent in terms of price and delivery on one manufacturer for their requirements of processing plants and again on another manufacturer for cigarette making and packing machinery. It is claimed that the project would help achieve production, supply and distribution by most efficient and economic means, of goods of such types and quantities in such volume and at such prices as will best meet the requirements of the defence of India and overseas markets. Fifthly, the proposed range of cigarette making machinery includes machines for the manufacture of collapsible packs for cigarettes and the use of the modern soft pack would lead to a considerable saving in the use of expensive card board paper, the traditional but expensive raw material for cigarette packs, which was in short supply and which could be spared for other essential purposes. This would surely result in reduced costs of cigarettes sold in such packets. It was mentioned to us by representatives of one cigarette manufacturer present at the public hearing that out of the total cigarette production in the country, the cheaper packings were 80 per cent. The economics thus effected and lowering of costs may itself result in more cigarettes being consumed by the bulk of the country's domestic population. The proposal also includes the manufacture of band tobacco plants which would recover the tobacco waste now being used for low value products and convert it into tobacco sheets for reuse in the manufacture of tobacco products, for example, the cigarette fillers or wrapper sheets for cigarillos/cigarittos and cigars. The scheme according to the applicant would ensure the best use of material resources and regulate the control of material resources of the community to subserve the common good. It is also stated that while the applicant's project would not starve the existing manufacturers of orders in their respective areas it would on the other hand liquidate their monopoly in their respective areas, much to the customers' advantage and ultimate mutual economic benefit.

- 5.53 It is also claimed that the applicant being a multi-product company, undertaking of a project of the kind envisaged would help in better utilisation of available facilities, both machines and manpower, in changing pattern of market demands and it would result also in better utilisation of technical competency developed over a number of years. It is emphasised that the manufacturing process of the proposed expansion scheme being similar to its existing manufacturing facilities, it would also be an extension to its existing R&D facilities.
- 5.54 The applicant's proposal, as stated already, is supported by some of the present manufacturers of cigarettes. The main ground for support is that there is no second manufacturer in the country for the manufacture of machinery and equipment for tobacco industry who can be approached for a competitive price of any critical equipment and if more and more such manufacturers come in the field of machine manufacturing it will be of great help to the cigarette industry. The resultant competition by entry of a new manufacturer of machinery would improve efficiency and reduce the prices etc. It was alleged that prices of John Fowler Ltd. were higher and their equipment was of old design and that even for cigarette packing and machinery the prices of Molins of India Ltd. were high. The proposal was originally supported by the then Ministry of Heavy Industry and it is even now supported by DGTD.
- 5.55 On the other hand, as stated earlier, the proposal is opposed by John Fowler and its feasibility doubted by ITC and Molins (India) Ltd. John Fowler opposes the proposal of the applicant company on the ground of scarce national resources being unduly wasted by installation of excess capacity in this field. It is also alleged that the proposal would lead to further concentration of economic power in the hands of a foreign controlled company which would lead to common detriment, and a large amount by way of dividend and other accounts would be remitted to foreign countries. It also alleged that there would be a large scale unemployment due to replacement of manual labour by mechanical means. It is claimed that it would be able to supply the entire requirements of tobacco processing machinery in the country in the foreseeable future. According to ITC also Molins (India) Ltd. and John Fowler between themselves can meet the demand for primary and secondary machinery for the manufacture of cigarettes for the foreseeable future. But ITC did show interest in the proposal for handling waste of each of their five cigarette factories.

The Tobacco Board also is not very enthusiastic about the applicant's proposal because according to it the demand for tobacco processing and tobacco product manufacturing machinery is not great and the existing capacity would cater to the requirements of the industry. According to it there is lack of demand for machinery for manu acture of cigarillo and the manufacture of cigarillo by machine should be discouraged because it would result in unemployment.

- 5.56 We have examined these contentions earlier but we do so further in the light of Section 28 of the Act. The examination involves a process of weighing and balancing; on balance we are inclined to support the proposal, since we are persuaded that the same would help realise the objective of the Act. The considerations enshrined in Section 28 of the Act which are relevant to the present inquiry include the need to set up countervailing force to the existing monopolies in the manufacture of both primary and secondary machinery for the manufacture of cigarettes. It is true that the demand for cigarette at the moment is sluggish. We have of necessity to take a long run view of things and provide situations in which the demand will return to normal. It is no doubt true that in respect of some of these items of machinery to be manufactured relevance of demand is somewhat remote, as for example, replacement of machinery in existing units and introduction of green leaf threshing machinery, both for manufacture of cigarettes and also for processing tobacco for exports, the manufacturing of band tobacco machinery and machinery for cigarillos and cigarittos. In such a situation creation of a competitor to the existing units would by itself create incentive for all round deduction of costs and introduction of innovations. This reduction in costs and introduction of innovations, would, in turn, encourage the existing cigarette manufacturing units to go in for replacement of machinery and introduction of new techniques. While on this question of countervailing power, competition between the applicant company and Moilns (India) Ltd. will be competition between renowned multi-national companies and that is a consummation devoutly to be wished for.
- 5.57 As far as competition between the applicant company and John Fowler is concerned it will not be competition between two multinationals but John Fowler has already been facing competition from imports, as is clear from the fact that two re-conditioned second-hand plants have been allowed to be imported and we would prefer such facilities to be manufactured in India rather than imported from abroad. The details of machineries imported for the manufacture of cigarettes, cigars etc. as given in Annexure XX underline this conclusion. It is said that some of the machinery is imported against REP. What is important is that there is at all necessity to import because the price of indigenous machinery is high and performance of imported reconditioned machinery is equal to if not better than that of indigenous new machinery. We would also wish that machinery manuactured with uptodate know-how should be put into use in this industry and not reconditioned second-hand machinery imported which unfortunately is preferred to the first hand machinery manuactured by the present unit viz. John Fowler. The technology utilised by John Fowler dates back to 1972 and is from M/s. Cardwell Vokes of the U.K. and it is significant that M/s. Gardwell of USA is now taken over by the Arenco AB, Sweden which is a Division of the Swiss Match Company. It seems to us noteworthy that because of their peculiar position, John Fowler should be able to hold the field however shakily with technololgy dating back to 1972. It is really high time that upto date technology is introduced in this area of industry so that our cost both for export of unmanufactured tobacco and also for manufactured cigarette consumed locally can hopefully come down. Even John Fowler have admitted that technology proposed to be introduced by Vulcan Laval would be sophisticated and their objection is that the country does not need that degree of souhistication. In the same breath they have stated that they would have a suitable tie up for certain items. But this is far too vague; such an assertion seems to have been merely contrived for the occasion. We have not been told of the steps they had taken to untodate their technology. It seems to us that introduction of a competitor would spur them on to better technology indigenously developed or acquired from outside and this would be to the good of the community. Secondly, from the point of view of its impact of export, the proposal appeals to us. It will help considerably the export of unmanufactured tobacco not only by maintaining the exports at the present qualitative and quantitative level but also in increasing them both from the point of view of quantity and value. Export is a matter of vital importance to our country's economy and we should spare no efforts in not only maintaining the export at their present level but if possible in raising them both in terms of value and in terms of quantity. It is in this process that the manufacture of green leaf threshing is most likely to help. John Fowler cannot be allowed to interdict such expansion manifestly called for in the national economic interest by merely seeking to perpetuate their monopoly in the field. The applicants have so far as John Fowler is concerned, confined themselves to threshers and separators which demonstrably occupy far less space and constitute only 15% of GLT phase. Superior technology is also claimed. It seems best to introduce competitor to help technology advance in this respect.

- 5.58 Somewhat less strongly but surely with equal interest, from a longer point of view the proposal will help in the export of cigarillos and cigarittos. It will in fact help realise the recommendation of the Ranganathan Committee; it may well improve upon it by substituting for the import suggested by that Committee and make up to an extent for the difficulties, in growing wrapper tobacco for cigar of the required kind. Thirdly, the proposal seems to be effective from the point of view of better utilisation of existing resources. This is clear in the case of manufacture of band tobacco and also in the case of threshing of green leaves. Moreover, the question of erecting excess capacity in items like these does not really arise because in the manufacture of industrial machinery there is considerable scope for improvisation and adjustment. This is clear from the experience of Molius (India) Ltd. and John Fowler themselves. The facilities the applicant wants to set up would be quite general and versatile in character and it would not be difficult for any of these units in the future to switch over to the line of production, the end products of which are in demand in the market. There is merit in the claim of the applicant that machine building activities require substantially the same fabricating and machining facilities with appropriate match of design and engineering inputs and that by reason of the applicant having in its existing works, an entire engineering set up comprising development, design, manufacture, installation, commissioning and servicing of intricate machinery which perform most exacting tasks, it will be well placed in the manufacture of specialised tobacco machinery. DGTD has stated that machine building industry by its very nature needs to be a multi-product industry for optimum capacity utilisation and invest-ment for diversification has to be marginal namely for balancing purposes. This has two fold impli-cations. The cost of erecting additional machinery by the applicant would be lower. The applicant company having already got the necessary infrastructure and even manufacturing facilities akin to those which it wants to set up, both the cost of setting up the new facilities and the speed with which it can be done would be greatly helped by the fact of the applicant company already being in similar business. Even John Fowler have stated that cost of setting up facilities even for the manufacture of secondary machinery would be Rs. 3.5 crores. According to the applicant's projections, which there are no grounds to doubt, the total cost of setting up facilities for manufacture of primary and secondary machinery would be Rs. 88.50 lakhs. And the impact on competition in the relevant field vis-a-vis the existing manufacturers and the applicant will be salutory because forces of demand and the relative efficiency of the three participants will determine their acceptability and it will be open to them to switch over to the line in which they have advantage over their competitors, if they are not able to make the grade either in tobacoco processing machinery or machinery for cigarette manufacture. The existing installed capacities and the capacity to be installed will remain unutilised to the extent that the undertakings in question are not able to make the grade in particular lines and are also not able to switch on to other lines in which they can make the grade. The fault would be not with the introduction of competition but with the inability of the unit concerned to show flexibility and resilience and branch off into range in which it can hold its field.
- 5.59 Against these plus points, there is a minus point, i.e. effect on employment. The projections of the applicant company proceed on the assumption that 20% of the present quantities of tobacco leaves processed will be affected. If mechanisation of this process leads to increased demand for our export, the workers displaced by mechanisation can well be absorbed in the extra employment opportunities created thereby. Same is the position regarding cigarillos and cigarittos. As a matter of fact, project in so far as it relates to cigarillos and cigarittos, proceeds on the creation of a new demand altogether and it would, therefore, on balance increase the employment opportunities rather than reduce them. In any case whether in the matter of exports or in the matter of introducing better technology for domestic production one has necessarily to allow for certain amount of effect on employment and the real solution is to find alternative employment for the displaced labour. This aspect of the matter is already aduerated to in para 5.23.

Location

5.60 The applicant company's present undertakings are situated at Dapodi near Pune. While the Government of Maharashtra has not objected to the proposal, they have expressed the hope that they will have a fruitful dialogue with the company in regard to the shifting of premises for the new proposal in a backward area of the State. On the date of hearing the representative of the applicant company pointed out that it was not possible to accede to the request of the Maharashtra Government because one of the main attractions of the proposal was the economy with which it would be executed by reason of the fact that the applicant company's existing facilities at Pune would make it easier for it to set up extra or additional facilities which will result in considerable economy in cost of execution of the project. We find considerable merit in this submission and it seems to us that one of the strong points of the proposal is the saving of cost on account of the applicant company already having facilities set up for executing similar projects and some of which facilities would be available for furtherance of the project under consideration.

5.61 Finally, we must refer to an aspect of the proposal that has been highlighted by the Planning Commission but which does not directly concern the project itself. It is related to the other projects in priority areas for which the applicant company applied earlier and for which sanction has been given to them by the Government. The anxiety of the Planning Commission was that the applicant company has not implemented some of these projects and that sanction of the present proposal might create a diversion, which would further put off these priority projects. The explanation of the applicant company is as under.

"1. Meat Processing Plants

We have during the last eight years quoted for the design, supply and installation of eleven meat processing plants of various capacities and have, besides, undertaken the preparation of techno-economic feasibility reports in respect of three other such projects. These plants have, inter alia, included the following:—

- (a) Cattle/buffalo/sheep/goat/pig slaughter houses.
- (b) Meat/bone/blood meal plants.
- (c) Blood plasma plants.
- (d) Smoke houses.
- (e) Poultry dressing plants.
- (f) Plants for freezing of meat, beaf and other products.

The position in respect of these business enquiries, as on date, is as follows-

(a)	Orders for poultry processing plants and slaughter houses received and executed	3 Nos.	Rs.	24.60 lakhs
(b)	Orders lost	2 Nos.	Rs.	154.79 lakhs
(c)	Projects dropped as being unremunerative (export enquiry)	I. No.	Rs.	5.48 lakhs
(d)	Offers made and still pending (public as well as private sector organisations) for US \$ 10,85,000 from			
	Econt essent	Ω Nov	D.	510 59 lakhe

Our technical competence in this field is proved by the plan designed and sold by us to three public sector undertakings. It is a matter of pride to us that these units are working to the entire satisfaction of our customers. It is the confidence gained in the execution of these orders that has prompted us to quote for plants of bigger capacity, both within the country and abroad. As will be seen from the above table, most of these enquiries are yet to crystallise into firm orders. The Government's current thinking on the establishment of slaughter houses is not conducive to the growth of this industry. We, therefore, do not expect to progress much in this line of activity.

2. Poultry and animal feed mill plants

We have on hand orders worth Rs. 2 lakhs approximately for such plants which we expect to execute shortly.

3. Seed Cleaning Plants

At the time that we applied to the Govt. in May, 1965 for permission to manufacture Seed Cleaing Plants, our market investigations had revealed that there was a potential demand in the country for Graders, Dryers, Slurry Treaters and Conveying equipment. We were reasonably confident of undertaking the manufacture of such equipment without additional capital investment in technical collaboration with Messrs. Kamas Kvarnsmaskiner AB. Sweden who were specialists in this field. The Government's approval to our manufacturing scheme was conveyed to us in March, 1968 and the terms of collaboration with Messrs. Kamas Kvarnsmaskiner AB, Sweden were also approved in July, 1968. The technical collaboration agreement signed on 1st September, 1967 was taken on record by the Ministry of Industrial Development, Internal Trade and Company Affairs, Department of Industrial Development vide their letter dated 13th January 1970.

In the meantime, however, the management of Messrs. Kamas Kvarnmaskiner AB, Sweden, changed hands and this line of activity was discontinued by them. As a result, in spite of our best efforts our technical collaboration with this party did not bear fruit. We also found, much to our dismay, that the demand for seed cleaning plants had fallen below economic levels, that several small scale units had entered this field of manufacture and that many imported plants had been received as aid etc. by government seed farms.

4. Complete Silo Equipment

At the time we applied to the Government of India in April, 1966 for permission to manufacture complete silo equipment with dehumidification, ventilation and fumication systems, our market investigations had revealed that there was a potential demand in the country for such equipment for scientific bulk storage of grains. The Food Corporation of India, a Government of India Undertaking concerned with the collection, storage and distribution of foodgrains, were themselves interested in grain silos of various capacities. We were, thus, encouraged to enter the field of silo manufacture and submitted to the Govt. a proposal to make equipment with indigenous materials and with technical know-how from M/s. Kamas Kvarnmaskiner AB of Sweden, who were specialists in this field.

In August, 1966, the Ministry of Industry, while confirming that no industrial licence was required for the manufacture of silos, advised us that the Govt. were prepared to grant us permission for the manufacture of such equipment in collaboration with Kamas on the terms and conditions stipulated in their letter No. 3-50/66-MEI dated 18-8-66.

We accordingly went ahead with the project and concluded a technical collaboration agreement with M/s. Kamas Kvarnmaskiner AB, Sweden. The agreement was taken on record by the Government of India, Ministry of Industrial Development, Internal Trade and Company Affairs, Department of Industrial Development vide their communication No. 3-50/66-MEI dated 13-1-70. Subsequently, we secured the permission of the Reserve Bank of India for the transmission of the technical know-how fee and royalty to the foreign collaborators. We were also registered as a Unit for the manufacture of silo equipment by the D.G.T.D. vide their Registration Letter No. DGTD/R-644/E-16(IV)/4/S-19/70 dt. 26-9-70.

In the meantime, however, the Management of M/s. Kamas Kvarnmaskiner AB, Sweden, regrettably, changed hands and this line of activity was discontinued by them. Thus in spite of our earnest endeavour, our technical collaboration with this party did not bear fruit.

Further, the Food Corporation of India and other Government Agencies concerned with the collection, storage and distribution of foodgrains abandoned their plans to go in for small capacity farm silos for grain storage and decided to construct large capacity silos manufactured from R.C.C.

Another unfavourable factor was that the manufacture of aluminium silos, for which we had secured D.G.T.D. registration, became highly uncompetitive with the price of the raw material escalating beyond reasonable levels on account of shortages.

Thus, we could not make any headway in the manufacture and sale of silo equipment.

It needs to be noted that no lumpsum payment or royalty was paid by us to M/s. Kamas Kvarnmaskiner AB for either seed cleaning plants or silo equipment".

In the light of this explanation, the Government may impose suitable conditions for surrender of licences in respect of projects in which the applicant company is no longer interested. As far as the projects which await the fueling of demand, what is required is a close watch by the licence issuing authorities in case there is a condition of scarcity. As far as the present project is concerned, we do not think that the consideration thereof can be affected either way by reason of the applicant company's performance in respect of earlier projects in view of the circumstances stated.



CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

- 6.01 Based on the analysis of the applicant company's proposal given in Chapter V, our conclusions in regard thereto are as under:
- (1) The proposal of the applicant company in so far as it relates to cigarette making machinery and cigarette packing machinery permits of being supported on the ground of weakening the stranglehold of the monopoly of the existing producer; the applicant company is likely to be an useful competitor in this respect holding out promise not only of prices of such machines coming down but even better technology being made available; both of them may even be induced to export a part of their products under the stress of competition.
- (2) The proposal relating to tobacco processing machinery seems really attractive. It will help weaken the monopoly of the existing manufacturer, activate the manufacture of better and more compact machinery, reduce costs of unmanufactured (processed) tobacco and may even improve its quality for export. The introduction of an element of such competition is likely to activate machinery production in this area which seems nearly dormant now and may help reduce the cost of machinery, both for original installation and replacement.
- (3) The proposal in so far as it relates to machinery for cigarittos and cigarillos is worth pursuing from a long run point of view, first to cater to domestic demand and later to develope export market.
- (4) The proposal in so far as it relates to manufacture of band tobacco is also worth pursuing because it will result in more economic use of available and scarce resources.
- (5) The scheme of finance submitted by the applicant company, including the foreign exchange aspects of it, is acceptable subject, however, to export obligations commensurate with the foreign exchange outgoings, with benefits likely to accrue to the applicant company by reason of its range of production being widened and with the fact that an undertaking of the applicant company's stature is allowed to enter the field of production an advantage which would not ordinarily be available to such undertakings.
- (6) The range of products as finally proposed by the applicant company should be permitted, the actual and specific items to be produced being left to the assessment of market situation by the applicant company.
- (7) Location of the undertaking in so far as it relates to the proposal need not be changed from the present location of the applicant company at Dapodi near Pune.
- 6.02 Our recommendations to the Government as flowing from the above noted conclusions were that the proposal of the applicant as modified in course of the inquiry along with its scheme of finance may be approved only subject to the following conditions:
- (a) The applicant company should undertake to export every year 20% of its production of cigarette making/tobacco processing machinery for a period of ten years from the commencement of production as per applicant's proposal. This condition can be relaxed by the Government if it is so inclined for the first five years of the project by providing that in case of any shortfall (wholly or partially) in place of cigarette making/tobacco processing machinery, the applicant could export 1½ times in terms on value of quantity to the extent of such shortfall (whichever is more valuable) of machinery other than cigarette making/tobacco processing machinery. It was seen that originally the Ministry of Heavy Industry had approved of the applicant's collaboration agreement on condition that it exported machinery worth Rs. 150 lakhs including cigarette machinery worth Rs. 35 lakhs in the first five years of the project. The applicant company, during the course of the hearing, has shown its willingness to export, in the course of five years, Rs. 165 lakhs worth of machinery including 50 lakhs worth of cigarette making machinery/tobacco processing machinery, with a rider that in case of failure to export cigarette making machinery/tobacco processing machinery the applicant will export 1½ times in terms of value (to the extent of such shortfall) of machinery other than cigarette making machinery. The applicant company's letter dated 8th June,

1978 incorporating this obligation is made Annexure XXXI. The applicant has in effect undertaken to export a maximum of Rs. 190 lakhs worth of machinery (other than cigarette making/tobacco processing) during the first five years; but the Commission's formula would require them to export Rs. 134.2 lakhs worth of cigarette making/tobacco processing machinery (20% of the total production, according to given figures of their projections) for the first five years instead of only Rs. 50 lakhs as finally proposed and in the event of the Government giving them the option for first five years they would export other machinery worth Rs. 201.3 lakhs (on the figures of projection supplied by the applicant company). The formula that the Commission recommends, therefore, is that the applicant company be required to undertake to export specifically every year either 20% of its total production of cigarette making/tobacco processing machinery or that they export other machinery of the value of $1\frac{1}{2}$ times the value of the said 20% or to the extent of the deficiency in the first five years, the said option to export $1\frac{1}{2}$ times the value of 20% or deficiency not being available to the applicant at the expiry of the first five years. The Commission would like the export obligation to continue for ten years from commencement of production as per applicant's proposal, after which the position may be reviewed by the Government.

- (b) The applicant company will reduce its foreign equity to 40% as required by FERA and as undertaken by the applicant company.
- (c) The applicant Company will get a clearance of the proposed foreign collaboration agreement and proposed import of capital goods from appropriate Govt. authorities in the light of modified product mix.
- (d) The loans from financial institutions will be subject to the provisions of the convertibility clause.
- (e) The applicant company will take appropriate steps as advised by the Government in respect of licences issued to it which it has not effectively worked till now.



(Sd.)

JUSTICE S. RANGARAJAN

Chairman

(Sd.)

H. M. JHALA

Member

New Delhi, the 19th June, 1978

No. 1(61) BNQ/78

Dated 5-5-1978

SEAL

Monopolies and Restrictive Trade Practices Commission, New Delhi.

Order under Section 30(2) of the Monopolies and Restrictive Trade Practices Act, 1969 in the case of M/s. Vulcan Laval Limited, Bombay.

The application submitted by M/s. Vulcan Laval Limited, Bombay to the Government of India, Ministry of Law, Justice and Company Affairs, Department of Company Affairs, for substantial expansion of its activities by way of manufacture of plant, machinery and equipment for the processing of tobacco and for the manufacture of tobacco products has been referred to the Monopolies and Restrictive Trade Practices Commission by the Department of Company Affairs under Section 21 of the Monopolies and Restrictive Trade Practices Act, 1969 for enquiry and report vide their reference No. 1/19/77-M(III) dated the 15th February, 1978. According to the provisions of Section 30 of the Act, the Commission's report would be due to be sent to the Government of India on 15th May, 1978 when 90 days time prescribed therein expires. However, for the reasons mentioned below it is not possible for the Commission to send the report within this period:

- (i) The questionnaire replies have been furnished by the applicant Company in instalments between 10th April and 22nd April, 1978, although they were required to send the information by 25th March, 1978.
- (ii) The public hearing could not be fixed before 20th May, 1978 as it required 21 days notice which could not be given till the information received was adequate.
- (iii) Clarifications sought from the applicant Company are yet to be received.
- (iv) Information/comments from some of the concerned Departments of the Government and clarifications from some of the interested parties are yet to be received.

In exercise of powers conferred on the Commission under Section 30(2) of the Monopolies and Restrictive trade practices Act, 1969, the last date for submission of the report to the Government of India in the case of M/s. Vulcan Laval Limited, Bombay is therefore, extended to 30th June, 1978.

(Sd.)

JUSTICE S. RANGARAJAN

Chairman

(Sd.)

H. M. JHALA

Member

Dated the 5th May 1978.

Annexure II

List of persons who attended the Public Hearing on Saturday, the 20th May, 1978 in the case of M/s. Vulcan Laval Ltd.

Government Deptis.	
1. Planning Commission	Shri D. K. Bose, Senior Research Officer.
2. Deptt. of Economic Affairs .	. Shri N. Balasubramanian, Dy. Secretary.
3. Deptt. of Agriculture	. Dr. W. G. Walunjkar, Director, Tobacco Development.
4. Deptt. of Heavy Industry	Shri S. Kanan, Dy. Secretary.
5. Directorate General of Technical Dev	velopment Shri A. B. Mallick, I.A.
6. Tobacco Board	. Dr. P. K. Ramaiah, Executive Director.
7. Deptt. of Science & Technology .	. Shri K. V. Srinivasan, Principal Scientific Officer.
8. Govt. of Maharashtra	Shri Vijay Kumar.
Other Parties	
I. M/s. Vulcan Laval Ltd.	 (i) Shri V. A. Datar, Managing Director (ii) Shri V. Isvaran, Director. (iii) Shri T. V. Ramachandran, Company Secretary. (iv) Shri N. W. Bhavnani, Commercial Manager. (v) Shri A. K. Rudra. (vi) Shri C. S. Kelkar (vii) Shri I. N. Shroff, Advocate.
2. M/s. John Fowler (India) Ltd.	 (i) Shri A. S. Lakshmanan, Chairman. (ii) Shri G. Radhakrishnan, Managing Director. (iii) Shri K. R. Seshadri, Secretary. (iv) Shri A.N.K. Murty. (v) Shri Rajindra Narain, Advocate.
3. M/s. M. Govind & Sons	 (i) Shri M. Govind, Managing Director. (ii) Shri Syed Khasim, Manager. (iii) Shri M. Mahendra, Consulting Engineer.
4. M/s. Godrey Phillips India Ltd	. Shri N. Ghosh.
5. M/s. Golden Tobacco Company Ltd.	. Shri N. S. Katoch.
6. M/s. Molins of India	. Shri G. R. Chandrasekhar, Coordination Executive.
7. Economic Times	. Shri T. Sharma.

Annexure III

Main Features of selling agency agreements entered into by Vulcan Laval Limited with Foreign Suppliers

Si. No.	Name of Principal	Date of agreement and its validity	Térms of remunera- tion	Territory and products covered
1.	Alfa-Laval AB (formerly known as AB Separator), Sweden.	1-1-1963 Continues indefinitely unless terminated by 18 months notice.	Normally 10%, but varies according to value of order and type of equipment	India—Dairy equip- ment, Centrifugal Separators, Plate Heat Exchangers.
2.	Fredriksons Verkstads AB, Sweden.	8-1-1964 Continues indefinitely unless terminated by either party by giving 9 months notice.	15%	India—Chain conve- yors, can tipping machines, can wash- ing m/cs, milk sam pling units, crat washing machines.
3.	Sala Maskinfabriks AB, Sweden.	Sept. 1964 Continues indefinitely unless terminated by either party by giving 3 months notice.	3 to 10%	India—Mining and ore dressing equipment.
4.	Arenco AB, Sweden.	4-9-1974 Continues indefinitely unless terminated by either party by giving 3 months notice.	2⅓ to 15%	India and Nepal— Tobacco and pack- aging machines, fish processing machines.
5.	Kamas Kvarnmaskiner AB, Sweden.	15-10-1964 Continues indefinitely unless terminated by either party by giving 6 months notice.	7½ to 20%	India, Sikkim, Bhutan and Nepal—Machinery and equipment for grain silos, animal feed plants etc.
6.	Hofliger & Karg, West Germany.	The agency arrangement was entered into in 1958 on the understanding that it will continue indefinitely unless terminated by either party. There is no written agreement.	2½ to 15%	India—Packaging Machinery.

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ANNEXURE III-Contd.

Sl. No.	Name of principal	Date of agreement and its validity	Terms of remunera-	Territory and pro- ducts covered
7.	Anhydro A/S, Denmark	The Agency arrangement was entered into in 1965 on the understanding that it will continue indefinitely unless terminated by either party. There is no written agreement.	10 to 15%	India — Evaporating and Spray Drying Plants.
8.	Kustner Brothers, Geneva, Switzerland.	The agency arrangement was entered into in 1959 on the understanding that it will continue indefinitely unless terminated by either party. There is no written agreement.	5%	India — Processing and packing machinery.
9.	Vab Calor, Sweden.	The agency arrangement was entered into in 1960 on the understanding that it will continue indefinitely unless terminated by either party. There is no written agreement.	15 to 20%	India—Laundry Ma- chines.
10.	Dania Shoe Machinery Works, Denmark.	The agency arrangement was entered into in 1962 on the understanding that it will continue indefinitely unless terminated by either party. There is no written agreement.	10%	India—Paper Pulp and Dissolving Pulp.

(Source: The applicant Company)

ANNEXURE IV

A: Details of Approved/Installed Capacities and Production of M/s. Vulcan Limited

[of I								Qty. = Nos.
P. Sl. Name of the Product O. No.	Licensed single shift	Licensed capacity on single shift basis (unless	Installed capacity	Year in which ins-	Year in which production		Production	Capacity utilisation
 A/ND/79	otherwise stated) Date on which granted	e stated) Qty.	on single shift basis (unless otherwise stated	talled	started	Year	Quantity	%01 %01
1 2	3	4	S	9	7	8	6	10
I. Industrial Licences								
1. Dairy Machinery and equipment	2-5-1960 4-5-1960	131 26,991	27,122	1962	1963	1973 1974 1975 1976 1977	30,094 38,057 31,359 23,071 32,487	111.0 140.3 115.6 85.1
2. Stainless Steel fittings pumps and refrigeration plants (Auxiliary equipment for diary, Chemical and tool Industries)	27-7-60	10,470	10,470	1962	1963	1973 1974 1975 1976 1977	5,484 8,008 7,401 4,419	52.4 76.5 70.7 38.8 42.2
3. Oil Separators, vacuum units, vegetable oil plants, etc.	21-10-60	200	200	1963	1963	1973 1974 1975 1976	168 247 190 118 172	84.0 123.5 95.0 59.0
4. Spur and helical gears .	17-12-763	009	009	1962	1963	1973 1974 1975 1976 1977	759 1,230 1,485 954 547	126.5 205.0 247.5 159.0 91.2

ANNEXURE IV-Contd.

-	2	က	4	5	9	7	8	6	10
ທ່	5. Diamond core drilling accessories and Carbide tipped tools.	13-2-68	40,000€	40,000€	1968	1968	1973 1974 1975 1976 1976	5,873 8,595 47,683 40,468 18,905	14.7 21.5 119.2 101.2 47.3
6 .	6. Evaporation, spray and flash drying plants.	4-5-70	Rs. 17.7 Million**	Rs. 17.5	1970	1970	1973 1974 1975 1976 1977	180+ 117+ 46+ 4+	
7.	7. Colls, plate type	19-12-70	1,000 mts.	Rs, 2.25 lakhs	N.A.	;	:	:	
ಹ	8. Plate heat exchangers	31-10-72	10,200\$	10,200\$	1975	1975	1973 1974 1975 1976 1976	345 ::+++	
Ħ	II. Items allowed to be manufactured under dispersification scheme within the overall licensed capacity for industrial machinery as per the above eight licenses.								
6	9. Special equipment for chemical, pharmaceutical and other allied industries.	13-9-76	Within over- all licensed capacity in industrial machinery upto a maximum of 300 tonnes.	Within overall licensed capacity in industrial machinery upto a maximum of 500 tonnes.	1975	1975	1973 1974 1975 1976 1977	: :242	

Manufacture of components will start receipt of drawings from the collaborators during 1978.	- op-		Not made much headway in the manufacture of Meat Processing plants, Poultry & animal feed mills plants, Seed cleaning plants and silo equipment.	9			1971 1973 67 1974 64 1975 5 1 1976 1	1972 1973 24 1974 27 1975 8 1976 15 1977 30
Manufac ings fror			Not mad Processin Seed cle				19	#
		É					1971	1972
With in overall licensed capacity in industrial machinery upto a maximum of 76 machines per annum.	Within overall licensed capacity in industrial machinery upto a maximum of 25 presses per annum.		Yet to be fixed	यन	375 plants/annum	Yet to be fixed	Not fixed @	9
21-1-78	21-1-78		15-5-70	17-8-70	19-9-70	26-9-70	20-1-71	18-5-71
 Foundry moulding and shot blasting machines. 	11. Hydraulic Presses . • •	III. Capacities registered with DGTD because industrial lieunes are not required as por I(D&R) Act.	12. Meet Processing plants	13. Poultry and animal food mill plants.	14. Seed Cleaning Plants	15. Complete silo equipment	16. Foods and beverage processing machinery.	17. Packetting and wrapping machinery.

ANNEXURE IV-Contd.

-	2	89	4	5	9	7	8	6	10
18. Air Plates	11CS (4) (4) (4) (4) (4) (4) (4) (4) (4) (4)	22-7-71	Rs. 0.6 Million**	Rs. 0.6 Million**	1972	1972	1973 1974 1975 1976 1976	262 84 37	
19, Plant for leat	19. Plant machinery & equipment for leather tanning and finishing.	10-1-77	Rs. 12.82 Million**	Rs. 12.82 Million**	1977 (Partly)	1977	1973 1974 1975 1976	: 1 1 : : *	

Nore: (a) The Company has been authorised to manufacture various items under registration letters issued by the Directorate General of Technical Development and licences issued by the Central Government which specify sublimits for individual items of manufactures. However, the Company has taken the view that these items constitute the classes of goods as shown above and accordingly the information and classification. The details of capacities of these sub-groups under Sl. Nos. 1,2,4,10,17 are given in section B of this Appendix.

(b) In respect of items marked @, as the capacity depends upon product mix, it is not possible to give an indication.

*Excludes capacity for carbide tipped tools which is yet to be fixed.

SPlates in terms of total number of plates used in the manufacture of plate heat exchangers.

+Parts manufactured for plants.

1000 miles (1000 miles) (1000 m

**Total annual capacity.

***Prototype.

Annexure IV

B: Details of Capacities of sub-groups of Industrial Licences/Registration Certificates given to M/s. Vulcan Laval Ltd.

Date of issue of licence	Item	Sub-items	Licensed capacity Qty (nos.)
1	2	3	4
I. Industrial Lice	ences		
1. 2-5-1960	Dairy Machinery	1. Bottle fillers	
	(Single Shift basis)	(a) Handfillers	45
		(b) 3,000 BPH Automatic	18
		(e) 6,000 BPH Automatic	4
		2. Bottle Washers	
		(a) Hand with tank, motor and brush etc.	20
		(b) 3,000 BPH (automatic)	18
		(c) 6,000 BPH (automatic)	4
		3. Crater Washer	
		(a) For Bottle fillers and washers of 3,000 BPH	18
		(b) For bottle fillers and washers of 6,000 BPH	4
		Total	131
2. 4-5-1960	Dairy Machinery .	1. Milk receiving tanks	20
	(Single Shift Basis)	2. Milk storage tank (insulated)	
		(a) 6,000 litres	20
		(b) 12,000 ,,	10
		(c) 16,000 ,,	10
		3. Pasteurisers (Plate type)	
		(a) 2200 LPH	20
		(b) 3300 LPH	10
		4. Pasteurisers (batch) 1000 litres	15
		5. Coolers	
		(a) Plate Type	10
		(b) Tubular Surface	12
		6. Can washers	
		(a) 2/3 C.P.M. Cap.	10
		(b) 4/5 C.P.M. Cap.	5

ANNEXURE IV-Contd.

1 2	3	4
	7. Crater washers	
	(a) For bottle fillers &	
	washers of 3000 B.P.H.	9
	(b) For bottle fillers & washers of 6,000 BPH	1
	8. Cream Separators	•
	(a) Hand	500
	(b) Power	50
	9. Pasteurising	
	Plant for cream	12
	10. Cream ripening vass	12
	11. Butter churnhand	50
	12. Butter workhand	25
	13. Butter churn and worker power combined	10
	14. Butter trollery	10
	15. Butter moulding machineries (hand operated)	25
	16. Cheo Boilers (Steam Jacketed)	20
	17. Ice Cream cans	500
•	18. Cheese Vats	10
	19. Cheese boops	200
	20. Cheese presses (double with weights)	15
	21. Case in precipitation tank	10
	22. Case in press	10
	23. Milk Pails	200
	24. Milking pails	5000
	25. Milkstrainers	500
	26. Milk plungers	500
	27. Ice-cylinders (hambers) for milk cans	1800
	28. Milk can without delivery	
	taps 5-40 litres	12,000
	29. Milk cans with delivery taps 20-4 litres	2000
	30. Milk cans Tharmo (insulated)	500
	31. Milk measures—sets	2,500
	32. Milk pipes washing and sterilising out fit complete	50
	33. C.I.P. units for cleaning plants	
	and tanks	50
	34. Washup tanks, G.I.	150
	35. Steaming blocks with steamjets	50
	36. Steam sterilizing chest	15
	37. Drip saver	40
	38. Road milk Tankers	25
	001 210000 22000 20000000	

AMMEXURE IV-Conti.

	1	2	3	4
3.	27-7-1960	Auxiliary Equipment for dairy chemical & food industries (Single shift basis)	1. Gravity Roller Conveyors for Dairy Bottling lines	1280 ft
			2. Powerdriven chain conveyors for Dairy Bottling lines.	2,600 ft
			3. Power driven S/Steel slat conveyors for Dairy Bottling lines (to include bottle washer discharge section)	2000 ft
			4. Stainless Steel Fittings Unions	
			with required number of tees and bends	(Nos.) 10,000
			 Hygicaic Stainless Steel Pumps for Dairy, Chemical and Food Industries 	400
			6. Freen Refrigeration Plant:	
		Sa.	(a) Chilling Stations 1-7.5 H.P.	20
		8	(b) Cold Stores 1-7.5 H.P.	15
			7. Ammonia Refrigeration Plant	
			(a) for cooling Milk/Cream	
			10-15 H.P.	20
			(b) For Cold Stores 10-120	15
			Тота <u>ь</u> सन्यमेव जयने	10,470
				(Nos.)
	21-10-1960	Vegetable Oil Plants, Oil Separators &	1. Separators	70
		Vacuum Units	2. Vacuum Units with ordinary trailors	29
		(Single shift basis)	3. Vacuum Units with Road	23
			worthy Trailors	22
			4. Open port units	6
			5. Parawash Unit	5
			6. Pilter for portable units	13
			7. Heaters for separators 6 kw.	
			8. Vacuum units	15
			9. Open units	6
			0. 3 kw Heaters	10
			I. Filters for 2 & 3 above	5
			2. Vegetable oil Plants	6
		1	9. Vacuum Dryer	3
				200

ANNEXURE IV-Gontd.

1	2	3		4
I. Items allo	wed to be manufactured	under diversification scheme		
	overall licensed capacit ove nine licences.	y for industrial machinery as		Rs.
her ene en	ove mae noemoca.		(tonnes)	(Lakhs)
. 13-9-76	Special equipment	Storate vessels	10	2.20
. 25-5-70	Special equipment for chemical pharma-	Strirred vessels	10	2.20
	ceutical and other	Pressure vessels	10	2.20
	allied industries.	Reactors	10	2.20
	mile mastre.	Heat Exchangers	25	5.50
		Distillation Column	25	4.00
		Filteration equipment	10	1.60
		Sedimentation Tanks	5	.80
		Crystallisers	5	1.10
		Size Reduction Equipment	10	1.60
		Size Classifiers	10	1.60
		Size Classifiers	10	1.60
		Evaporators	75	16.50
	,	Dryers	75	16.50
	1	Digestors	50	8.00
		Extractors	25	5.50
		Absorbers Sterlisers	50	8.00
		Conveyor	5	1.10
		Electrolytic cells	5	
		Waste Heat	50	8.00
		Recovery Plants Miscellaneous	30	5.60
		Sterlisers	5	1.10
		सद्यम्ब गयत	500	100.00
61 1 70	Founday Moulding	66		· · · · · · · · · · · · · · · · · · ·
. 21-1-78	Foundry Moulding machines (Nos)	•		
	Shout blasting machines	10		
	macinites -	76		
	-			
II, Capacities as per ID		as industrial licences not requ	dred	
17-9-70	Seed Cleaning Plants*	•		
•		Seed Cleaning Plant		
		(i) 200 kgs/per hr.	300	6.00
		(ii) 500 kgs/per hr.	60	19.20
		(iii) 1000 kgs/per hr.	10	8.0
		(iv) Non-standard plants bigger		=
		than one ton per hour.	5	8.0
			375	41.2

Annexure V

Financial Analysis for 1973-1977

(Rs. Lakhs)

					_	G. Lakib)
		1973	1974	1975	1976	1977
I. Ası	sets					
1.1	Fixed assets	108.0	123. 4	139.4	125.0	134.6
1.2	Current assets	581.4	677.9	716.9	654.2	850.2
1.3	Investments	0.2	0.2	0.2	0.2	0.2
1.4	TOTAL:	689.6	801.5	856.5	779.4	985.0
II. Inv	vestment of Capital employed					
2.1	Cross fixed assets	206.4	238.6	279.2	281.3	310.8
2.2	Depreciation provision	28.4	114.7	139.8	156.3	176.2
2.3	Net fixed assets	108.0	123.4	139.4	125.0	134.6
2.4	Investment	0.2	0.2	0.2	0.2	0.2
2.5	Current assets	581.4	677.9	716.9	654.2	850.2
2.6	Current Liabilities & provisions	266.8	326.4	285.1	272.4	385.5
2.7	Net working capital	314.6	351.5	431.8	381.8	464.6
2.8	Total capital employed	422.8	475.1	571.4	507.0	599.4
4.0	(2.3+2.4+2.7)	11110			• • • • • • • • • • • • • • • • • • • •	
M. Fir	nancing of Capital employed	0	2		•	
3.1	Share Capital	84.6	87.6	144.3	144.3	148.5
3.2	Reserves & Surpluses	104.4	132.1	108.9	85. 2	99.2
3.3	Total net worth	189.0	219.7	253.2	229.5	2 4 7. 7
3.4	Secured Loans	161.3	37 186.0	216.9	202.1	266.1
3.5	Unsecured loans	72.5	69.4	101.3	75.4	85 .6
3.6	Total borrowings	233.8	255.4	318.2	277.5	351. 7
3.7	Total capital employed (3.3+3.6)	422.8	475.1	571.4	507. 0	599.4
IV. I	icome					
4.1	Sales	617.2	901.7	960.2	1047.1	1060.5
4.2	Other income	4.6	3.7	16.7	9.8	8.6
4.3	Total income	621.8	905.4	976.9	1056.9	1069.1
V. Gr	ross Profits					
5.1	Interest on loans	21.7	29.0	47.2	47.2	46.4
5.2	Profit before tax	71.9	103.6	43.7	114.9	104.3
5.3	Gross profits $(5.1+5.2)$	103.6	132.5	90.9	162.1	150.7
5.4	Provision for taxation .	35.0	60.5		74.2	65.0
5.5	Profit after tax (5.2—5.4)	36.9	43.1	4 3.7	40.7	39.3
	ofit ratios (per cent)		·07.0	15.0	00.00	05.0
6.1	Gross profit /Capital employed (5.3/2.8)	24.5	27.9	15.9	32.00	2 5.2
6.2		16.7	14.6	9.3	15.3	14.1
6.3		38.0	47.2	17.3	50.0	42.1
6.4		19.5	19.6	17.3	17.7	15.6
VIL B	tate of Dividend declared (%)	12	12	14	17	18

Source—Balance sheets and Profits & Loss statements as made available by the applicant company.

ANNEXURE VI

Raw Material Components Requirement for Phased Manufacturing Programme of Tobacco Equipment.

(Value in Rs. Lakhs.)

	Source of	Quantity	Quantity required per year and its estimated value	year and its e	stimated v	alue	
	hiddns	I YEAR II Y Tons Rs. Tons	EAR Rs.	EAR Rs.	IV YEAR Fons Rs.	V YEAR Tons Rs.	
Mild Steel sheets, bars & sections	. Indigenous	5.00 0.20 23.00 0.92 53.00 2.12 36.00 1.44 90.00	00 0.92 53.0	0 2.12 36.	00 1.44 9	90.00 3.60	
Casting and forgings	. do.	2.00 0.12 11.00	00 0.66 26.00	0 1.56 17.	1.56 17.00 1.02 40.00	40.00 2.40	
SUB-TOTAL		0.32	1.58	3.68	2.46	00.9	
Special alloys, tools steels etc.	*Imported/ Indigenous	2,50 0.50 12.50	50 2.50 30.00		90 4.00	6.00 20.00 4.00 50.00 10.00	·
Stainless steel sheets, plates and sections	. *Imported/ Indigenous	2.10 0.50 6.25	25 1.50 18.75	5 4.50 12.50	50 3.00 25.00	25.00 6.00	46
Stainless steel bars and tubes	. Imported	1.80 0.54 0.50	50 0.15 1.50	0.45	2.90 0.87	2.60 0.78	
Special alloys, tool steels and non-ferrous extrusions.	do.	0.50	0.50 1	1.00	7.50 0.75 Kox	2.50 1.50 Køs.	
Special welding materials	. do.	100 0.10 50	gs. 1xgs. 50 0.05 100	0.10	150 0.15	110 0.11	
Sub-total	•	2.14	4.70	12.05	8.77	18.39	
Components	. do.	3.44	. 7.40	3.27	6.63	4.83	
Components	. Indigenous	14.00	48.40	. 57.50	73.00	114.00	
		19.90	62.08	76.50	90.86	143.22	
			The state of the s				

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*These items should normally be available from indigenous sources and hence when computing the percentage of import content, these figures need not be taken into account.

Source.—The applicant Company.

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Annexure VII

No. 11-22/72-HM.II

GOVERNMENT OF INDIA MINISTRY OF INDUSTRY

Department of Heavy Industry

New Delhi, the 12th Dec., 1973.

To

M/s. Vulcan Lavel Limited, Mustafa Bldg., 7A, Sir P.M. Road., Bombay-1.

Sub: Proposal for F.C. with M/s. Arenco AB, Siktgatan-11, Stockholm, Vallingby-1, Sweden for the manufacture of Machinery/Equipment for processing of Tobacco and mfr. of Tobacco products-No. FC/FIB-2 (1447)/72 (1814)/73.

GENTLEMEN.

I am directed to refer to your application dated 12-3-73 on the above subject, forwarded with your letter No. DGM/VAD/Tobacco dt. the 12th March, 1973 and to say that the Govt. of India are prepared to approve the terms of the collaboration with M/s. Arenco AB, Siktgatan 11, Stockholm, Vallingby-1 Sweden for the manufacture of Machinery Equipment for processing of Tobacco and for manufacture of Tobacco products on the following basis and on the lines detailed in the annexure:—

- (i) It is noted that you will go in for total additional issue of Rs. 58.50 lakhs, for implementing this project. You are required to bring down the foreign equity holding in accordance with the dilution of equity formula as laid down by the Govt. in the guidelines.
- (ii) The foreign collaborator shall be paid lumpsum of Rs. 23 lakhs/Rupees Twenty three lakhs subject to applicable Indian taxes, for drawings, designs documentation, under:—
 - (a) Rs. 10 lakhs at the time of signing the Agreement.
 - (b) Rs. 7 lakhs on commencement of commercial production.
 - (c) Rs. 6 lakhs one year after the commencement of commercial production.
- (iii) No payment on account of R & D would be made to the foreign collaborators.
- (iv) This approval is subject to the condition that you shall export the entire range of your products at least of the value of Rs. One hundred & Fifty lakhs of which should include at least Rs. 35 lakhs worth of Tobacco, Cigarette making machinery, in terms of foreign exchange over a period of 5 years and for this purpose the requisite guarantee i.e. legal undertaking/bank guarantees as may be required should be furnished.
- (v) The import of prototype plants will be subject to the clearance of the Govt. and will not be sold in India at least for a period of three years if import of the same is permitted.
- 2. In case the terms of collaboration stipulated above and in the annexure are acceptable to you, an intimation in this regard may please be sent to this Ministry immediately. Ten copies of the collaboration agreement strictly in accordance with the terms indicated above as finally executed all of which should be duly signed by both the parties, may kindly, be furnished to this Ministry.
- 3. This approval to the terms of collaboration is valid for a period of 6 months from the date of issue.

Yours faithfully.

(Sd.)

(S. KANNAN)

Under Secretary to the Govt. of India. 11-12-73.

Annexure

- (i) The Indian Company should be free to sub-licence the technical know-how product design/engineering design under the agreement to another Indian party, should it become, necessary the terms of such sub-licensing will however, be as mutually agreed to by all the parties, concerned including the foreign collaborators & will be subject to the approval of Government.
- (ii) The deputation of foreign technicians either way shall be governed by specific approval to be granted by the Govt. on application in terms of numbers, period of assistance and training, rate of allowances to be paid, travelling charges and other items of expenses etc.
- (iii) Import of raw-materials would be allowed as per import policy, prevailing from time to time. It may, however, be noted that the import will be allowed to the extent it will be cleared from indigenous angle. No import of equipment is involved.
- (iv) Foreign brand names will not ordinarily be allowed for the use on the products for internal sale although there is no objection to their use on products to be exported.
- (v) Exports shall be permitted to all countries except where the foreign collaborator has existing licensing arrangements for manufacture.
- (vi) The duration of the agreement shall be for a period of 5 years from the date of agreement or 5 years from the date of commencement of production provided production is not delayed beyond 3 years, of signing agreement (i.e. a maximum period of 8 yrs. from the agreement). Within this period, the Indian Company should develop & set up their own design and research facilities so that continued dependence upon the foreign collaborator beyond this period will not be necessary.
- (vii) In case the item of manufacture is one which is patented in India, the payment of royalty/lumpsum payment made by the Indian Company to the foreign collaborator for the period of agreement mentioned in condition (vi) above, shall also constitute, full compensation for the use of patent rights till the expiry of the life of the patent and the Indian Company shall be free to manufacture the item even after the expiry of the collaboration agreement, without making any additional payments. A specific provision in this regard must be incorporated in the collaboration agreement to be entered into between the two parties.
- (viii) In case any consultancy, is required to execute the product, this should be obtained from an Indian consultancy Engineering firm. If foreign consultancy is considered unavoidable, the Indian consultancy firm should nevertheless be the prime consultants.
- (ix) The Indian Company should send three copies of return about the progress of the undertaking as in the from enclosed showing the position as on 31st Dec., each year. This return should be shumitted by the 31st January, of the following year. The annual returns should be sent till the date of the expiry of the foreign collaboration agreement, one copy be addressed to the authority which approved the foreign collaboration and the other copies being endorsed to the Ministry of Finance (Deptt. of Economic Affairs) and the Foreign Collaboration Section of the Ministry of Industrial Development.
 - (x) The agreement shall be subject to Indian Laws.

Under Secretary to the Govt. of India.

ANNEXURE VIII

No. 11-22/72-HM. II

GOVERNMENT OF INDIA

MINISTRY OF HEAVY INDUSTRY

New Delhi, the 24th April, 1974.

To

M/s. Vulcan Laval Ltd., Mustafa Building, 7-A, Sir P.M. Road., Bombay-1.

Sub: Proposal for foreign collaboration with M/s. Arenco AB Siktagata, Stockholm, Vallingby-1, Sweden, for the manufacture of Machinery/Equipment for processing of Tobaxo and Tobasco products-FC-FIB-2 (1447)/72 dt. 18-4-73.

GENTLEMEN,

I am directed to refer to your letter No. CGB/VAD dt. 10-3-74, on the above subject and to say that in the circumstances explained therein, the Government have decided to amend para 1(ii) of this Ministry's letter No. 11-22/72-HM-II dt. 12-12-1973 to read as follows:

- (i) (ii) The foreign collaborator shall be paid a lumpsum of 1,502,659 Sw. Krs. (Fifteen lakks two thousand and six hundred fifty nine only Sw. Krs.) subject to applicable taxes, for drawings, designs and documentation as under:
 - (i) Sw. Krs. 653,330 after signing of the agreement.
 - (ii) Sw. Krs. 457,331 on commencement of commercial production.
 - (iii) Sw. Krs. 391,998 one year after the commencement of commercial production.

Other terms and conditions of this Ministry's letter referred to above will remain unchanged.

- 2. The Government have no objection to your request to your collaborator giving a definite undertaking that M/s. Vulcan Laval will be free to use the patent rights till the expiry of their life, and that M/s. Vulcan Laval shall be free to manufacture the concerned items, even after the expiry of the collaboration agreement, without having to make any additional payments, even though there may be subsisting patent rights.
- 3. The Govt. have also no objection to the insertion of clause of Arbitration by Internal Chambers of Commerce, Paris, in addition to the clause that the Agreement would be subject to Indian Laws.

Yours faithfully,

(Sd.)

(S. KANNAN)

Under Secretary to The Goot. of India.

Annexure IX

Project Cost

The estimated capital outlay is as follows	•							
•								(Rs. in lac
1. Buildings	•	•	•	•	•	•	•	5.0
2. Plant & Machinery	•	•	• .	•	•		•	53.5
3. Raw materials, customers' out	standi	ngs le	ss adv	ances	•		•	60.0
4. Technical know-how .	•	•	•	•	•	• •	•	30.0
						TOTAL		148.
Plant and machinery								,
Indigenous		•.	•					45.5
Imported	•					•		8.0
•					-	Total		53.5
The first Calman and investigance	. C.II.							
The details of plant and machinery are a	s Jouot	os:						.
(i) Imported Machinery							$\mathbf{A}_{\mathbf{j}}$	pprox. Price
1. No. Giddings & Lewis types nur	nerica	lly co	strolle	d prec	ieian	drilling/box	ring/	Rs.
combination machine with co-								
standard spares	\$ N.		235)	•		•	4,00,00
Contingencies	7		333				•	1,50,00
•	1000					TOTAL		5,50,00
	UN		Y			TOTAL	•	
(ii) Indigenous Machinery:	1.2	7 11	L.					
1 No. General purpose lathe .			AFF					1,00,00
1 No. Horizontal boring machine			(5)		•		•	8,00,00
1 No. of Horizontal milling machine	0.00		100	•	•		•	1,50,00
2 Nos. Vertical milling machines	सन्य	मेव ज	यत	•	•		•	3,00,00
1 No. Radial drilling machine .	•	•	•		•		Ţ	80,00
1 No. External grinding machine	•	•	•	•	•		•	4,00,00
1 No. Precision drilling and tapping	mach	ine	•	•	•		•	2,50,00
1 No. vertical turret milling machine			•		•		•	4,20,00
1 No. Internal grinding machine	•	•	•	•	į			2,50,00
1 No. Co-ordinate boring and milling	r mac'	hine	•	•	•	•	·	6,00,00
1 No. production zig borer .	5 11140		•	•	•		•	12,00,00
The production and poror	•	•	•		·	T		
						TOTAL	•	45,50,00
(iii) Total Requirements of Capital Equa	pment							
Imported machinery	•	•	•	•	•		•	5,50,00
Import duty	•		. •	•	•.		•	2,50,00
Indigenous machinery	•			•	•		•	45,50,00

Annexure X
Scheme of Finance

('000 Rupees)

Particulars		Pro	ected year			
	1977	1978	1979	1980	1981	1982
Source of Fund						
Share Issue	550	13312	• •	••	••	••
Net profit after depreciation, investment allowance and taxation	3031	44 75	4513	5755	52 5 0	6000
Depreciation provision .	2628	3600	5480	6945	6820	6130
Investment allowance	897	1125	1687	1500	0001	400
Increase in secured loans .	(566)	358 4	(89)	(714)	(600)	(600)
Increase in public deposits .	1131	(2000)	••	• •		••
Increase in other unsecured .	(107)	••	(27)	(15)	(15)	
Increase in Bank borrowings for working capital	6991	3309	(4840)	8232	(35)	(3238)
Increase of Liability of deferred payments	432	2.		••	••	• •
Sale of investments .	••			•• .		
Other income	***	INTER		• •		• •
Increase in current liabilities	10879	(543)	1332	148	931	429
Total .	25836	26862	8056	21851	13351	9121
Position of Funds		सत्यमेव जयते			÷.	
Capital expenditure						
(1) For replacement modernisation	2178	4900	9300	9000	3150	3000
(2) For the proposed expansion scheme	••	••	3500	2300	3050	• •
(3) For any scheme under implementation	1408	1800	1150	2300	• •	
Increase in inventory stocks.	2744	1956	1400	2600	2000	1100
Increase in other current assets, Loans & Advances	15188	271 4	1380	1480	980-	850
Dividend Payment	2655	2655	4171	4171	4171	4171
Increase in Investment in shares of other Companies/other investments	:		••	••		
Total .	24173	14025	20901	21851	13351	9121

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Annexure X— Contd.

Scheme of Finance—Contd.

Particulars			Project	ed year	•	
	1977	1978	1979	1980	1981	1982
Cash availability surpluses	1663	12837	12845	••		••
Pledgeable Assets	98495	119102	117507	128242	130602	129422
Borrowing possible (Drawing power)	68946	80680	82255	89770	91421	90595
Bank Borrowing (Actual) .	26610	33503	28574	36092	35457	31619
Cash availability (Theoretical Margin)	42336	47177	53681	53678	55964	58976

NB.—All figures is '000'.

Source.-The applicant Company.

Projected Balance Sheet for 1978

	<	1977	For the existing activities	For the proposed activities	Any other scheme under implemen- tation	
I. Assets		THE	L.			
A. Total Fixed Assets		31075	34567	• •	3208	37775
Less depreciation	•	17618	20437	• •	781	21218
	_	13457	14130	••	2427	16557
B. Investments	_	20	20	• •	••	20
C. Current Assets						
Sundry debtors	•	38591	39600	••	400	40000
Inventories		39044	40000	••	1000	41000
Cash & Bank balances		2508	15345*	• •	~ ·	15345
Loans & Advance		4775	6000		100	6100
D. Misc. Expenditure & Losses if any		100	80	••	• •	80
Total Assets (A to D)		98495	115175		3927	119102
II. Liabilities	_					
E. Share Capital						
Equity- non-resident .	•	10458	9258	• •	• •	9258
Equity-resident	•	4395	13494	• •	423	13917
Preference shares	•	• •	• • •	• •	••	••
Total		14853	22752	••	423	23175

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Annexure X—Conid.
Scheme of Finance—Contd.

	Particulars	1977	For the existing activities	For the proposed activities	Any other scheme under implementation	Total
F.	Reserves and Surpluses	9919	17854		• •	17854
3.	Secured Loans					
	(a) Term Loans	919	503	• •	4000	450 3
	(b) Short term Loans (From Banks/ Interconnected concerns)	25691	29000	••	••	29000
	_	26610	29503	••	4000	33503
Ŧ.	Unsecured Loans					
	(a) Public deposits	8506	6506	• •	• •	6506
	(b) Others	57	57	••	• •	57
	Total .	8563	6563			6563
ī.	Current Liabilities and provisions	Mind	Y			
	Sundry Creditors	17587	16000	••	175	1617
	Bills payable	3705	4000	• •	• •	4000
	Others	11334	11507	• •	325	11832
	Provisions	5924	6000		••	6000
	Total .	38550	37507	••	500	3800
	Total Liabilities (E to I)	98495	114179		4923	119102

^{*}Includes cash received against issue of shares.

Projected Balance Sheet For 1979

Particulars		For the exsiting activities	For the proposed activities	Any other scheme under imple- mentation	Total
I. Assets					
A. Total Fixed Assets	•	43867	35000	4358	51725
Less: Depreciation	•	24637	630	1431	26698
Net Fixed Assets		19230	2870	2927	25027

N.B.—All figures in '000.

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Annexure X—Con.d.

Projected Balance Sheet for 1979—Contd.

	Particulars		For the existing activities	For the proposed activities	Any other scheme under implementation	Total
3.	Investments		20		• •	20
a.	Current Assets					
	Sundry Debtors		40000		1200	_ 41200
	Inventorics		40000		2400	4240
•	Cash & Bank Balance		2500			250
	Loans & Advances		6000	• •	300	630
D.	Misc. Expenditure & Losses, if any		60	••	••	6
	E. Total Assets (A to D)	•	107810	2870	6827	11750
I.	Liabilities					
E.	Share Capital	8	1500			
	Equity-non-resident	636	9258		• •	925
	Equity-Resident	A.	13494	• •	423	1391
	Preference sares	16		• •		•
	Total		22752	•	423	- 2317
_	D 10 .1	B	10000	100	475	1000
F.	Reserves and Surpluses	- (2)	19288	120	475	1988
G.	Secured Loans	"				
	(a) Term Loans	- 3	प्यम्ब न्याप	• •	4000	441
	(b) Short term loans (from Banks/ Inter-connected concerns)		24160		••	2416
	Total:		24574	. • •	4000	2857
н.	Unsecured Loans					. •
	(a) Public deposits	٠	6506		••,	6506
	(b) Others		30	• •	••	30
	Total	•	6536	••	• •	653
í. (Current Liabilities and Provision	15 :			·	
	Sundry Creditors		15000	1800	500	1730
	Bills Payable		4000	••	••	400
	Others		11539		500	1203
	Provisions		60000	• •		600
	Total Liabilities (E to I)	•	36539	1800	1000	3633
			109689	1920	5898	11750

N.B.—.All figures in '000.

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Annexure X—Contd.

Projected Balance Sheet for 1980

	Particulars			For the existing activities	For the proposed activities	Any other scheme under im mentation	pl e-
I.	Assets						
A.	Total Fixed Assets .		• ,	52867	5800	6658	65325
	Less: Depreciation		•	29717	1555	2371	33643
	Net Fixe	ed Assets	. –	23150	4245	4287	31682
В.	Investments .			20	••		20
C.	Current Assets:						
	Sundry debtors .			40000	600	1800	42400
	Inventories			40000	1200	3800	45000
	Cash & Bank balances		AN	2500			2500
	Loans and advances			600	150	150	6600
D.	Misc. Expenditure & Losse	es, if any	S.	40	••	• •	40
	Total Assets (A	A to D)	17	111710	6195	10337	128242
II.	Liabilities						
E.	Share Capital		777	ma and			
	Equity non-resident .		440	9258	• •	• •	9258
	Equity-Resident .	· · .	٠	13494	••	423	13917
	Preference shares .		•	• •		• •	••
		Total	•	22752		423	2317
F.	Reserves & Surpluses .	•	•	21202	165	1600	2296
G.	Secured Loans						
	(a) Terms Loans .			200	• •	3500	3700
٠	(b) Short term (from Banected concerns)	nks/Interd	con-	28892	936	2564	32392
		Total	•	29092	936	6064	36092
	* ** 1 **		_	7			
H.	Unsecured Loans			CEAC		• .	0500
	(a) Public deposits .		•	6506	• •	••	6506
	(b) Others	•	•	15	• •	••	15
	Тот			6521	••		6521

Annexure X-Contd. Projected Balance Sheet for 1980-Contd.

Particulars		For the existing activities	For the propose activities	ed scheme	ole-
I. Current Liabilities and Pro	visions				
Sundry Creditors		16000	240	750	16990
Bills Payable		4000			4000
Others		11527	470	500	12497
Provisions		6000		• •	6000
Тотак	L	37527	710	1250	39487
TOTAL LIABILITIES (E to 1)		117094	1811	9337	128242
Particulars		For the existing activities	For the proposed activities	Any other scheme under imple- mentation	Total
I. Assets	Ø.	THE		, included in	,
A. Total fixed assets	- (8)	56017	8850	6658	71525
Less: Depreciation	de	34467	2855	3141	40463
Net fixed Assets	- 3	21550	5995	3517	31062
B. Investments		20			20
C. Current Assets					
Sundry debtors		40000	1200	2000	43200
Inventories	•	40000	2500	4500	4700
Cash & Bank Balances		2500	• •	••	2500
Loans and advances	•	6000	300	500	6800
O. Misc. expenditure & loans if any .	•	20	• •	• •	20
TOTAL ASSETS (A to D)	•	110090	9995	10517	130602
I. Liabilities					
I. Liabilities E. Share Capital					
		9258			9258
E. Share Capital	•	9258 13494	••	 423	9258 13917
E. Share Capital Equity non-resident					

Annexure X-Contd.

Projected Balance Sheet for 1981-Contd.

Particulars	For the existing activities	For the proposed activities	Any other scheme under imple- mentation	Total
F. Reserves and Surpluses	. 21696	865	24 85	25046
G. Secured loans				
(a) Term Loans	. 100	• •	3000	3100
(b) Short term loans (from banks/interconnected concerns).	. 27357	2500	2500	32357
FOTAL	. 27457	2500	5500	35457
H. Unsecured loans	-			
(a) Public deposits	. 6506	••	• •	6506
(b) Others	~ [85]	••	••	• •
Total	6506	• •		6506
I. Current Liabilities and Provisions				
Sundry Creditors	······································	500	900	17400
Bills payable	. 4000	• •	, ••	400
Others	. 11508	1010	500	13018
Provisions	. 6000	• •	••	6000
Total	. 37508	1510	14000	40418
TOTAL LIABILITIES (E to I)	. 115919	4875	9808	130602

Projected Balance Sheet for 1982

All figures in '000

	Particulars				For the existing activities	For the proposed activities	Any other scheme under imple- mentation	Total
I.	Assets :							
A.	Total fixed Assets .				59017	8850	6658	74525
	Less: Depreciation .	•	•	•	38887	3935	3771	46593
	Net Fixed Assets		•		20130	4915	2887	27932
B.	Investments	•		•	20	. •	••	20

Annexure X-Contd.

Projected Balance Sheet for 1982-Contd.

	Particulars		For the existing activities	For the proposed activities	Any other scheme under imple- mentation	Tota
C.	Current Assets					
	Sundry Debtors		40000	1500	2400	43900
	Inventories		40000	3100	5000	48100
	Cash & Bank balances .		2500		• •	2500
	Loans and advances .		6000	370	. 600	6970
D.	Misc. Expenditure & Losses, if	any	- ••	• •	• •	••
	Total Assets (A to D)		. 108650	9885	10887	129422
II.	Liabilities					
E.	Share Capital				;	
	Equity non-resident .		9258	• •	• •	9258
	Equity-Resident .	- 6	13494	• •	423	13917
	Preference shares			• •	• •	• •
	Ton	ral .	22752	••	423	23175
F.	Reserves and Surpluses .		22230	1335	3710	27275
G.	Secured Loans	1				
	(a) Term Loans .		सन्यमेव जयसे	• •	2500	2500
	(b) Short term loans (from bainterconnected concerns)	nks/	24619	2500 .	2000	29119
	Тот.	AL .	24619	2500	4500	31619
н.	Uasecured Loans					
	(a) Public deposits		6506		••	6506
	(b) Others			••	• •	••
	Тот	AL .	6506	• •	• •	••
. (Current Liabilities and Provisions	•			· · · · · · · · · · · · · · · · · · ·	
	Sundry Creditors		16000	620	1000	17620
	Bills payable		4000	• •	••	4000
	Others		11487	1240	500	13227
	Provisions		6000	• •	••	6000
	Te	DTAL .	37487	1860	1500	40847
	TOTAL LIABILITIES (E to I	· ·	113594	5695	10133	129422

ANNEXURE XI

Type-wise estimates of production tobacco in India

Type					1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
Gigarette tobacco											
(i) FCV		•			96.2	139.4	120.1	159.1	99.5	8.96	94.4
(ii) Other than FCV	•	٠			40.0	45.0	37.1	50.0	43.0	38.0	38.0
Bidi	•	•			100.00	105.0	100.0	120.0	115.0	110.0	155.0
Cigar & Cheroot	•		•	•	15.0	19.0	15.0	20.0	15.0	15.0	15.0
Hookah .	•				30.0	35.0	30.0	30.0	25.0	25.0	30.0
Chewing	•	•	•		76.2	70.5	65.0	76.5	60.1	0.09	76.8
Snuff	•		•	•	4.5	5.0	5.0	6.5	5.5	5.0	5.0
		TOTAL	JV.	•	361.9	418.9	372.2	462.1	363.1	349.8	414.2

Source.--Deptt. of Agriculture.

ANNEXURE XII

VFC TOBACCO: Physical Targets and Achievements under the Centrally Sponsored Scheme

State			Area covered upto 1974-75	Target 1975-76 (addl)	Achievement 1975-76	Coverage upto end of 75-76	Target 1976-77	Achievement 1976-77	Addl. target for 77-78	Target 5th plans.
1			2	es	4	2	9	7	8	6
Andhra Pradesh		•	32,036	5,000	10,069	41,460	5,000	9,600	8,700	39,000
Karrataka			5,195	2,000	1,032	5,390	2,600	2,010	3,000	12,000
Uttar Pradesh			246	009	75	275	009	212	009	3,000
Gujarat .		•	165	200	- 62	96	200	218	200	1,000
Tamil Nadu			41	200			200*	:	:	:
Maharashtra				जयते						
Bihar Orissa	•	•	Explorator taken in th	ry trials to emplese States. He	Exploratory trials to emplore the possibilities of cultivating good V.F.C. Wrapper Tobacco are being undertaken in these States, Hence there is no coverage target fixed.	ies of cultivat	ting good V.F et fixed.	C. Wrapper To	obacco are	being unde
West Bengal	•	•			·					
	TOTAL	<u>.</u>	37.683	8.000	11.255	47.221	8.000	12.040	12.500	55.000

*The Centrally Sponsored Scheme in Tamil Nadu has been discontinued with effect from 31-3-1975 but it has been recommended tor its revival during 1977-78.

Source, -Department of Agriculture, Government of India.

ANNEXURE XIII

Statement showing installed capacity and production of Cigarettes during the last three years

Installed Capacity	B M of		during the last three years	during the last three years	years				
No. Approved Actual 1975 1976 1977 1. M/s. ITC Ltd. (5 Units)	S.	Name of the Unit	Installed C	apacity	Product	ion (in million	n Capacity Ut	ilisation '77(%	
1. M/s. ITC Ltd. (5 Units)	Š		Approved	Actual	1975	1976	1977	Approved	Actua
M/s. Vazir Sultan Tobacco Co. Ltd. Hyderabad 16,000 23,645 12,578 13,666 13,238 Godfrey Phillips Co. Ltd. Bombay 6,000 8,142 3,632 4,046 3,459 Golden Tobacco Co. Ltd. Bombay (2 Units) 14,500 15,625 7,342 9,639 10,131 National Tobacco Co. Ltd. Bombay (2 Units) 15,500 15,500 3,282 2,760 3,428 International Tobacco Co. Ltd. Guldleor 600 3,600 1,732 1,849 1,771 Grown Tobacco Ltd. Bombay 180 480 480 345 408 304 Asia Tobacco Co. Ltd., Madras 18,00 1,800 1,800 1113 5 Universal Tobacco Co. Ltd. 18,00 1,800 1,800 111 538 526 J.K. Gigarettes Srinagar 103,600 3,600 3,600 3,600 3,600 3,600 102,463 67,463 68,272 D. Macropolo Co. 103,768 122,519 59,876 67,463 68,272 1,028	-	M/s. ITC Ltd. (5 Units)	36,000	40,839	29,831	33,153	33,817	93.9	82.8
Godfrey Phillips Co. Ltd. Bombay 6,000 8,142 3,632 4,046 3,459 Golden Tobacco Co. Ltd. Bombay (2 Units) 14,500 15,625 7,342 9,639 10,131 National Tobacco Co. Ltd. Calcutta (2 Units) 15,500 3,282 2,760 3,428 International Tobacco Co. Ltd. Guldleor 600 3,600 1,732 1,849 1,771 Grown Tobacco Ltd. Bombay 180 480 480 480 465 100 Asia Tobacco Co. Ltd., Bombay 4,500 4,500 65 270 465 Universal Tobacco Co. Ltd., Madras 18,00 1,800 3,600 3,600 3,600 121 538 526 J.K. Cigarettes Srinagar 4,500 4,500 4,500 121 538 526 Nava Bharat Tobacco Co. Ltd. Hyderabad 108 108 1 D. Macropolo Co. 100,036 3,600 3,600 3,600 3,600 121 D. Macropolo Co. 103,768 122,519 59.876 67.463 67.463 68.272 <td>2</td> <td>M/s. Vazir Sultan Tobacco Co. Ltd. Hyderabad</td> <td>16,000</td> <td>23,645</td> <td>12,578</td> <td>13,666</td> <td>13,238</td> <td>82.7</td> <td>55.9</td>	2	M/s. Vazir Sultan Tobacco Co. Ltd. Hyderabad	16,000	23,645	12,578	13,666	13,238	82.7	55.9
Golden Tobacco Co. Ltd. Bombay (2 Units) 14,500 15,625 7,342 9,639 10,131 National Tobacco Co. Ltd. Calcutta (2 Units) 15,500 3,282 2,760 3,428 International Tobacco Co. Ltd. Calcutta (2 Units) 600 3,600 1,732 1,849 1,771 Crown Tobacco Co. Ltd. Bombay 180 480 480 345 408 304 Asia Tobacco Co. Ltd., Madras 4,500 4,500 65 270 465 Universal Tobacco Co. Ltd. 18,00 1,800 1,800 1,800 1,800 55 J.K. Cigarettes Srinagar 4,500 4,500 4,500 892 905 1,028 D. Macropolo Co. 108 108 108 1 Toral. 103.768 122.519 59.876 67.463 68.277	છ	Godfrey Phillips Co. Ltd. Bombay	9000'9	8,142	3,632	4,046	3,459	57.6	42.5
National Tobacco Co. Ltd. Calcutta (2 Units) 15,500 15,500 3,282 2,760 3,428 International Tobacco Co. Ltd. Guldleor 600 3,600 1,732 1,849 1,771 Grown Tobacco Ltd. Bombay 180 480 480 345 408 304 Asia Tobacco Co. Ltd., Madras 4,500 4,500 4,500 65 270 465 Universal Tobacco Co. Ltd., Madras 18,00 1,800 113 5 J.K. Cigarettes Srinagar 5,500 4,500 4,500 121 538 526 Nava Bharat Tobacco Co. Ltd. Hyderabad 3,600 3,600 892 905 1,028 D. Macropolo Co. 103.768 122.519 59.876 67.463 68.277	4.	Golden Tobacco Co. Ltd. Bombay (2 Units).	14,500	15,625	7,342	9,639	10,131	64.8	64.8
International Tobacco Co. Ltd. Guldleor 600 3,600 1,732 1,849 1,771 Grown Tobacco Ltd. Bombay 180 180 480 480 345 66 100 Asia Tobacco Co. Ltd., Bombay 4,500 4,500 65 270 465 Universal Tobacco Co. Ltd., Madras 18,00 1,800 113 5 J.K. Cigarettes Srinagar 4,500 4,500 121 538 526 Nava Bharat Tobacco Co. Ltd. Hyderabad 3,600 3,600 892 905 1,028 D. Macropolo Co. 103.768 122.519 59.876 67.463 68.272	ų.	National Tobacco Co. Ltd. Calcutta (2 Units)	15,500	15,500	3,282	2,760	3,428	22.1	22.1
Grown Tobacco Ltd. Bombay 180 180 55 66 Master Tobacco Co. Ltd., Bombay 480 480 345 408 Asia Tobacco Co. Ltd., Madras 4,500 4,500 65 270 Universal Tobacco Co. Ltd. 18,00 1,800 113 J.K. Cigarettes Srinagar 4,500 4,500 121 538 Nava Bharat Tobacco Co. Ltd. Hyderabad 3,600 3,600 892 905 1, D. Macropolo Co. 108 108 1 67,463 68	9	International Tobacco Co. Ltd. Guldleor	009	3,600	1,732	1,849	1,771	295.2	49.2
Asia Tobacco Co. Ltd., Bombay 480 480 345 408 Asia Tobacco Co. Ltd., Madras 4,500 4,500 65 270 Universal Tobacco Co. Ltd., Madras Srinagar 18,00 1,800 121 538 J.K. Cigarettes Srinagar 4,500 4,500 4,500 121 538 Nava Bharat Tobacco Co. Ltd. Hyderabad 3,600 3,600 892 905 1, D. Macropolo Co. 108 108 1	7.	Grown Tobacco Ltd. Bombay	180	180	55	99	100	55.5	55.5
Asia Tobacco Co. Ltd., Madras 4,500 4,500 4,500 55 270 Universal Tobacco Co. Ltd. 18,00 1,800 113 J.K. Cigarettes Srinagar 4,500 4,500 121 538 Nava Bharat Tobacco Co. Ltd. Hyderabad 3,600 3,600 892 905 1, D. Macropolo Co. 108 1	ထ	Master Tobacco Co. Ltd., Bombay	480	480	345	408	304	63.3	63.3
Universal Tobacco Co. Ltd. 4,500 1,800 113 J.K. Cigarettes Srinagar 4,500 4,500 121 538 Nava Bharat Tobacco Co. Ltd. Hyderabad 3,600 3,600 892 905 1, D. Macropolo Co. 108 108 1	6	Asia Tobacco Co. Ltd., Madras	4,500	4,500	65	270	465	10.4	10.4
J.K. Cigarettes Srinagar	10.	Universal Tobacco Co. Ltd.	18,00	1,800	3	. 113	z.	9.0	9.0
Nava Bharat Tobacco Co. Ltd. Hyderabad . 3,600 3,600 892 905 D. Macropolo Co	11.	J.K. Cigarettes Srinagar	4,500	4,500	121	538	526	11.7	11.7
D. Macropolo Go	12.		3,600	3,600	892	902	1,028	28.6	28.6
103.768 122.519 59.876 67.463	13.		108	108		:	:	:	:
		TOTAL .	103,768	122,519	59,876	67,463	68,272	65.8	55.7

Source. - DGTD.

Annexure XIV

Production of Cigarettes

(In Crores Numbers)

									(III Citita II	unibers)
	Year						Production	% ove	variation er the previous	
	1951		•		•		2,145		· 	
	1952					•	2,012		6.2	
	1953						1,842		8.4	
	1954			•		•	1,983	+	7.7	
	1955	•	•	•	•	•	2,283	+	15.1	
I.	Average				•	•	2053		2.0	
	1956				•		2,630	+	13.2	
	1957						2,889	· +	9.9	
	1958						2,984	+	3.3	
	1959						3,217	+	7.8	
,	1960		•	•	•	É	3,697	+	14.9	
II.	Average			•		100	3083		10.2	
	1961					- 1	3,946	+	6.7	•
	1962						4,112	+	4.2	
	1963						4,006		2.6	
	1964			•		. 1	4,620	+	15.3	•
	1965		•	•		- {	5,403	+	17.0	
III.	Average			•		•	4415	•	8.1	
	1966			•		•	5,851	+	8.3	
	1967			•			5,451	<u>.</u>	6.8	
	1968					•	6,038	+	10.8	e
	19 6 9			•		•	5,971	·	1.1	
	1970	•	•	•	•	•	6,220	+	4.2	
V.	Average			•	•	•	5906		3 .1	
	1971			•			6,580	+	5.8	
	1972			•			6,758		0.03	
	1973			•	•		6,100	_	7.3	
	1974			•			6,587	+	8.0	
	1975	•	•	•	, •		5,987	<u></u>	9.1	
V.	Average	•		•		•	6356		0.5	
	1976						6,746	+	12.7	
	1977						6,827	+	1.2	

Source.— Monthly Review—(State Bank of India and DGTD for 1975-1977).

Annexure XV

Per Capita consumption of cigarettes

Year		-				Per ca _l	pita consumption	(Nos.)
1950—51 .					•	•	60	
1951—52.						•	57	
1952—53.			•				50	
195354 .	•	•			•		52	
195 4 —55.			•		•		55	
1955—56.	•		•	•	•	•	61	
1956—57.	•	•		•	•	•	68	
195758 .	•			•	•	•	71	
195859 .				•		•	71	
1959—60 .			•	•		•	75	
196061 .			•	•	. 5	Seatol .	86	
1961—62 .		•		. 8			91	
196263 .			•	. 1			90	
1963—64 .	•				SHE		88	
1964—65.			•	•	VA		101	
1965—66 .		•	•		12	THE !	114	
1966—67.	٠.				5.47	84172	114	
1967—68.	•	•	•		(CHE)		106	
196869.		•	•		सन्य	पेव जयते	118	
1969—70.	•		•	•	•	•	115	
1970—71.	. •		•	٠.	•	•	116	
1971—72.	•	•	•		•	•	118	
1972—73.		•		•	•		167	
1973—74.	•			•	•	•	113	
1974—75.	•	•		•	•	•	103	
1975—76.		•	•	•	•	•	102	
1976—77.	•	•	•	•	•	•	111	
1977—78 (A	pril-Se	pt.)	•,	•	•		109	

Source.— Report of the Tobacco Excise Tariff Committee and Cigarette Manufacturers Association.

(for 1974-75 to 1977-78)

ANNEXURE XVI

Process Regarding Implementation of letters of intent issued to the new Cigarette Units

S.No.		Name of the Unit	Location	Capacity (million pcs)	Progress made so far
-:	M/s.	1. M/s. Vijay Tobacco Industries	. Broach, Gujarat	4,500	Not implemented so far.
2.		Madhya Pradesh Audyogik Vikas Nigam Ltd.	. Bhopal	4,500	do.
3.	.	North Eastern Tobacco Co. Ltd.	. Assam	3,600	do. Extension granted upto 31-12-1978.
4;	5	East India Tobacco Co. Ltd.	. Madras	4,500	No progress
5.	2	Kerala State Industrial Development Corporation Ltd	Trivandrum	4,500	do.
9.	•	Golden Tobacco Co. Ltd	. Hyderabad	4,500	do.
7.	2	G. Vinod	do.	4,500	Under implementation.
&	2	Haryana State Industrial Development Corporation (Letter of Intent)	. Bhiwani	4,500	No progress.
6		United Agencies (Letter of Intent)	. U.P.	4,500	do.
i		TOTAL		39,600	

Source.—DGTD

Annexure XVII

Tobacco: Exports (Variety-wise)

Quantity: '000 kg. Value: '000 Rs.

				v aru-	e: 000 K	S.
Variety	19	71-72	1	972-73	19	73-74
	Qty.	Value	Qty.	Value	Qty.	Value
Tobacco Unmanufactured:						
For manufacture of Bidi .	104.1	315.4	78.3	214.4	170.5	995.2
For manufacture of chewing tobacco	3404.4	9994.6	2393.9	7710.8	2469.8	9012.0
Sun-cured Natu (Country)	719.1	4523.9	6424.7	21304.5	702.4	3472.2
Virginia Fluecured	49422.8	394871.8	83011.7	571812.9	70886.6	655688.9
Virginia Sun-cured	917.1	7548.3	659.2	3073.7	2412.8	10743.8
Burley Tobacco			4.2	33.6		• •
For manufacture of Cigar and cheroot	1.1	13.0	0.2	2.6	0.4	4.7
For Hookah tobacco	121.6	480.2	62.2	272.0	210.4	742.6
Others	2598.3	4878.3	1849.4	6273.1	1362.2	3486.7
Total .	57288.5	422461.5	94483.8	610697.6	78215.1	684146.1
Tobacco Manufactured:		Trains an	,			
Cigar and cheroot:		सन्यमेव जयन	1			
(i) Bidis	81.7	1571.5	64.8	1401.3	71.6	1486.7
(ii) Others	2.0	28.3	0.2	5.3	0.5	10.0
Cigarettes	1173.9	15706.5	1073.9	16754.0	839.7	14117.7
Chewing Tobacco	4.8	21.1	0.6	4.0	127.6	883.0
Hookah or Cooduku	1914.4	6837.2	2247.8	8057.5	1709.7	6718.9
Jarda Scented Tobacco .	2.9	3 8.3	3.4	61.6	8.1	136.3
Snuff	14.8	252.3	10.1	157.3	12.9	243 .1
Tobacco Manufactured NES	408.9	3883.2	212.2	1539.7	158.2	1408.6
TOTAL	5608.4	26338.4	3613.0	27980.7	2928.3	25004.3
GRAND TOTAL	60896.9	450799.9	98096.8	638678.3	81143.4	709150.4

Source.—Monthly Statistics of the Foreign Trade of India, Department of Commercial Intelligence and Statistics, Government of India.

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Annexure XVII---Contd.

Quantity: '000 kg. Value: '000 Rs.

Variation	. 1	974-75	19	75-76	19	976-77
Variety	Qty.	Value	Qty.	Value	Qty.	Value
Tobacco Unmanufactured .	1435.3	5 894.2	4582.2	51767.5	2346.0	15139.
For manufacture of Chewing Tobacco	1375.9	5786.7	482.4	3269.0	51 66.7	31 892 .4
Sun-cured Natu (Country) .	547.6	4281.1	760 .0	7404.7	1331.9	14312.4
Virginia Flue-cured	68051.5	767707.6	64502.4	862053.4	67114.0	8 7564 0.7
Virginia Sun-cured	2637.7	16778.3	3410.0	23396.9	934.1	9225.2
Burley Tobacco	2.1	9.5	156.6	1172.4	304.3	2698 .4
For manufacture of cigar and cheroot .	7.0	47.1	22		87.0	837.4
For Hookah tobacco	20.8	32.1	31.6	201.5	38.0	245.1
Others	904.5	3014.7	341.1	1690.0	2811.8	16198.7
Total .	74981.9	803551.3	74276.3	930955.4	80133.8	966181.0
			57			
Tobacco Manufactured: Cigar and Cheroot:		सन्यमेव ज	रने रने			
(i) Bidis	87.7	2008.9	120.9	3004.5	296.8	6661.7
(ii) Others	0.8	13.7	0.4	3.7	2.4	25.2
Cigarettes	120.1	3037.5	1386.6	33986.2	999.8	22727.6
Chewing tobacco	1096.6	5229.2	194.6	1276.1	150.4	1401.2
Iookah or Guck tobacco .	1601.8	7538.9	2355.0	12663.7	3850.5	20999.2
arda Scented tobacco .	7.0	204.7	41.5	1027.7	54.7	1596.0
nuff	12.6	270.9	10.5	288.2	23.3	678.2
obacco Manufactured NES	46.3	336.2	71.7	425.1	90.8	754.8
Total .	2972.9	18640.0	4181.2	52674.9	5468.7	54843.9
GRAND TOTAL .	77954.8	822191.3	78457.5	983630.3	85602.5 10	021024.9

Source.—Monthly Statistics of the Foreign Trade of India, Department of Commercial Intelligence and Statistics, Government of India.

ANNEXURE XVII—Contd.

Exports of Tobacco Manufactured

Q. Quantity: '000 Kgs. V. Value: '000 Rs.

							1977	7-78	197	6-77
							(April-	-Sept.)	(April	-Sept.)
							Qty.	Value	Qty.	Value
1.	Bidis					,	103	3067	76	2043
2.	Cigars & Cheroots					•			Negl.	Negl.
3.	Cigarettes .				•		259	6002	629	13719
4,	Chewing tobacco						31	428	81	700
5.	Hookah and Gudh tob	acco			•		1079	6296	1925	10226
6.	Jarda Scented tobacco		•				12	270	42	1178
7.	Snuff				~ E		13	353	15	400
8.	NES (Other)	•	•	- &			73	1235	65	400
				Тот	ral .		1570	17651	2833	28670

Exports of Tobacco Unmanufactured

Q. Quantity: '000 kg. V. Value: '000 Rs.

		सन्य	मेव जयन	ì	V. Va	lue: (OU RS.
		-		19	77-78	1	976-77
				(April Qty.	to Sept.) Value	(April Qty.	to Sept.) Value
1.	For bedi manufacture			724	4005	942	5909
2.	For manufacture of Chewing tobacco		•	30	272	2627	14852
3.	Sun-cured Natu (Country)		•	1242	14983	948	10611
4.	Virginia Flue-cured			51829	769934	52957	688469
5.	Virginia Sun-cured			1033	11316	830	8880
6.	Burley tobacco		•	59	869	221	1874
7.	For manufacture of Cigar & Cheroots		•	23	182	45	460
8.	For hookah tobacco			358	2125	4	41
9.	Tobacco refuse, incl stalks and stems	•		5761	12794		
10.	Others	•	•	2838	47537	1381	8509
	Tor	AL	•	63897	864017	59955	739605

ANNEXURE XVIII

Effective Rates of Excise Duty on Tobacco and its Products

	Item	Rate of e	xcise duty
		Basic	Additional
1.	Cigarettes		
	Cigarettes of which the value per one Thousand.		
	(1) Does not exceed Rs. 15/-	115%	35%
	(2) Exceeds Rs. 15/- but does not exceed Rs. 20/-	115% + 3% for every additional rupee or part thereof in excess of Rs. 15/but not exceeding Rs. 20/- per thousand.	additional rupee or part thereof in excess of Rs. 15/-
	(3) Exceeds Rs. 20/-	130% + 5% for every additional rupee or part thereof in excess of Rs. 20/- per one thousand.	40% + 3% for every additional rupee or part thereof in excess of Rs. 20/- per one thousand.
		Maximum retained at 270%.	Maximum retained at 100%
2.	Cigars	WHIT	
	Value per one hundred	1371 507	
	(1) Does not exceed Rs. 5/-	15%	
	(2) Is between Rs. 5/- and Rs. 15/	50%	
	(3) Is over Rs. 15/-	100%	
3,	Smoking mixture for pipes and cigarettes	170%	50%
4.	Tobacco for domestic consumption	Rs./kg.	Rs./kg.
	(1) If flue-cured and used in the manufacture of cigarettes	4.85	0.60
	(2) If other than flue-cured and used for the manufacture of		
	(a) Cigarettes		
	(b) Smoking mixture for pipes and cigarettes	3.85	0.50

In the Budget for the year, 1978-79, an additional excise duty of 5% of the basic duty has been levied which is in addition to the rates specified above.

ANNEXURE XIX

Particulars of Machinery Manufacturing Units in the Small Scale Sector

	i		7	Value (Rs. in lakhs)	6	2.46	
		Turn over	1976-77	Qty.	8	1 No. Tobacco Redrying plant (on labour contract basis) I unit Hydraulic Press and pumps other Miscellaneous Tobacco machinery parts.	
	ector	Τι		Value (Rs. in lakhs)	7	1.76	0.75
	in the Small Scale S		1975-76	Qty.	9	l unit Tobac- co Hydraulic Press and pumps & Miscellancous parts	1. Delivery suction valves-2 plunzers-3 Grank shaft grinding, New bearings, Roller grind small and bush & pin bearings.
ANNEXURE XIX	Particulars of Machinery Manufacturing Units in the Small Scale Sector	Description of pro-	by the units		5	1. Tobacco redrying plants. 2. Hydraulic presses & pumps. 3. Tobacco Trawelling machines. 4. Tobacco scrap cleaning machines 5. Conveyers for tobacco redrying plants. 6. Baling boxes 7. Tobacco carrying Trucks & Trolleys.	1. Hydraulic Plunzers. 2. " valves 3. Crank shaft 4. Piston Pins 5. Resiling of Tobacco Blocks. 6. C.I. Pistons
	Iachin	y,		irect	4	Ø	ಣ
	Particulars of A	No. of persons	curping	Direct or Indirect	3	13 (Both on month- ly wages and con- tract basis)	22 (Both on month- ly wages & con- tract basis)
		Capital	Illycaulic	(Ks. in lakhs)	2	0.85	8.
86	-8 M of	A Name of units				M/s. Ruth Foundry, Symaldoss, Agraharam, Guntur.	M/s. The National Auto Engineering Works, G.T. Road, Lalapet, Guntur.

6	2.28	2 5
8	One Trawelling machine, one control panel Board. 2 Nos. Baling presses with pumps.	6 Hydraulic presses 1 Hydraulic pump 1 Trawelling machine 2 tobacco steam shakers.
7	2.80	2.00
9	1. Tobacco Redrying plant. I Hydraulic press and other spare parts.	3 Nos. Hydraulic presses 2 Nos Trawelling machines 3 Nos. Tobacco steam shakers.
5	1. Tobacco Redrying plants. 2. Auto Feeder 3. Tobacco leaf Conveyers. 4. Tobacco Hydraulic Baling Presses. 5. Tobacco Screw presses. 6. Baling Boxes. 7. Tobacco Trawelling machine. 8. Tobacco Hand Trawlers 9. Case chargers.	1. Hydraulic press and pump. 2. Redrying machines and gear box. 3. Redrying Pinion chains. 4. Redrying Exhaust Blower. 5. Redrying structures 6. Tobacco Trawelling machines. 7. Bale Boxes 8. Tobacco Carrying trucks. 10. Tobacco steam shakers.
4	0 1 0 6 4 0 9 0	नपति ८ ६ ४ ६ ७ १ ७ ५
3	Permanent) 31 (contract)	9 10 contract basis.
2	13.58	1.00
1	M/s. M. Govind & Sons, Rajah's Garden, Guntur.	M/s. Vijaya Foundry, Mangalagiri Road, Guntur.

0.80 Jakhs				
gar e				
0.70				
ŧ				
 Tobacco Carrying Trolleys. Tobacco Carrying trucks. 	3. Case Packing charges.	4. Bale Box	5. Hydraulic Presses	6. Spare pump for re-drying machine
-				
€				
0.50				
General Engineering Works, Mangalgiri Road, Guntur.				

Source.— State Government of Andhra Pradesh.



Annexure XX

Imports of Tobacco Machinery

(Rs. lakhs)

										w. iakiis)
	Items				_	1972-73	1973-74	1974-75	1975-76	1976-77
1.	Cigar Making Ma	chine	ry			15.65	2.83	0.47	2.68	8.69
	U.K		•	•		2.97	2.83	0.47	2.25	0.07
	Czech		•			12.67		• •	• •	4.75
	Switzerland	•		•	•	0.01		, ••	• •	• •
	Germany F.R.P.		•	•	•	• •	. ••	• •	0.20	• •
	USA				•	• •	• •		0.23	0.25
	France .					• •	• •	••		3.61
2.	Cigarette Making 1	Machi	nery		•	82.22	33.54	37.87	14.11	61.18
	Czech	•	•		•	31.43	12.50	2.35	2.18	0.95
	France .			•	É	14.26	Neg.	••	• •	• •
	U.K		•		Î	8.95	21.02	11.73	9.19	6.17
	USA	. •	•	•		0.21	0.02	0.05	1.64	
	Germany D.RP.		•	•	•	0.28		• •	0.10	• •
	Germany F. RP	•	•	•	- 8	8.97		23.30	0.68	0.64
	Italy .	•	•	•		18.11		••	••	. ••
	Netherland	•	•			सन्धमेव जय	तें	0.43	••	• •
	Canada .	•	•		•	••	• •	• •	0.33	• •
	Norway .			• ,	•	• •	••	• •	•	58.42

Source. DGCI & S.

Annexure XXI

Exports of Tobacco Machinery

(Rs. lakhs)

C	ountry/Year		·		1977-76	1976-75	1975-74	1974-73	1973-72
(i)	Burma .	•	•	•	0.72	0.18	0.20	0.23	0.07
(ii)	Sri Lanka .		•	•	20.40	• •		• •	
(iii)	Ivory Coast .	•	•	•	0.08	• •	• •	••	• •
(iv)	Nepal .	•		•	0.05	12.29	• •	0.01	• •
.(v)	Bangladesh .	•,	•	•	4.24	35.96	1.26	2.00	1.48
(vi)	U.A.R. Egypt	•			26.39	18.31	2.08	8.20	0.59
(vii)	Indonesia	•	•	•	• •	0.18	• •	0.06	,• •
(viii)	U.K	•		•	••	0.95		• •	
(ix)	South Arab	•		•	_ 550	••	0.29	• •	
(x)	YMN Arb Rep.	• .	ě	• (33	••	0.01	
		То	TAL	•	51.88	67.87	3.83	5.51	2.14

सन्यमेव जयते

Source. DGCI & S.

ANNEXURE XXII

Complete Range of Manufacturing Activities (of Tobacco Machinery) of M/s. John Fowler (India) Ltd.

- Green Leaf Threshing Plant capable of threshing tobacco at the rate of 1800 or 4500 kg. per hour of tobacco leaves.
- 2. Threshing Plant for redried leaves capable of threshing at the rate of 1350 kg. per hour of to-bacco leaves.
- 3. Conditioning and Casing Cylinders capable of handling tobacco leaves/lamina at the rate of of 1350, 1800, 2700 and 4500 kg. per hour.
- 4. Conditioning Cylinders for Stems capable of handling stems at the rate of 180 and 360 kg. per hour.
- 5. Auto feed for leaves/lamina having capacities of 1350, 2700 and 4500 kg. per hour of tobacco leaves/lamina.
- 6. Auto feed for stems having capacities of 180 and 360 kg. per hour of stems.
- 7. Tobacco Re-dryer for lamina having capacities of 1800 and 4500 kg. per hour of tobacco leaves/lamina (Apron Type).
- 8. Re-dryer for stems having a capacity of 800 kg. per hour of stems.
- 9. Press Coupled for tobacco packing at the rate of 3600 kgs. per hour of tobacco leaves.
- Vibratory and Band Conveyors upto the capacity of 4500 kgs. per hour of tobacco leaves/ lamina.
- 11. Pneumatic conveying of tobacco up to the rate of 4500 kgs. per hour of tobacco leaves/lamina.
- 12. Automatic Feed to Cigarette Makers.
- 13. Blending and Bulking Silos of capacity 4000 kgs. of tobacco leaves/lamina.
- 14. Dryer and Coolers of capacities 1350, 1800 and 2700 kgs. per hour of tobacco leaves/lamina.
- 15. Tipping and Tie Leaf Cutting Machines having capacities of 1350, 1800 and 2500 kgs. per hour of tobacco leaves.
- 16. Electrical control gears.

Source. - John Fowler (India) Ltd.

ANNEXURE XXIII

Machine Sales—Molins of India MK8 SM Cigarette Making Machine

Godfrey Philips (1) Ltd. 2 5 6 Godfrey Philips (1) Ltd. 1 3* <th></th> <th></th> <th>1970</th> <th>1971</th> <th>1972</th> <th>1973</th> <th>1974</th> <th>1975</th> <th>1976</th> <th>1977</th>			1970	1971	1972	1973	1974	1975	1976	1977
ad the state of t	1 T.C. Limited		2	5	:	:	9	-	1	:
painted	Godfrey Philips (I) Ltd.	•	-	°°	:	:	:	:	:	:
nited .	Golden Tobacco Company Ltd.	•	• · •	8	:	:		:	:	•
सयम्ब ज्यन	Vajir Sultan Tobacco Co. Limited 1	.• •	:	8	:	: • : •	óı	•	:	:
स्थापन ज्यान	National Tobacco Company Limited .	•	-	6		:	:	:	. •	
मह ज्यान	J & K (New)	•	स्य सन्य			:	-	:	. •	. •
ALPHA (B'DESH)	ASIA TOB (New)	•	्र पेव			:	•	,	. •	•
NEPAL	ALPHA (B'DESH)	.•	ायन ।यन			•	•	-	- 1	:
GEYLON	NEPAL	•	}	:	3	:	•	Ħ	·:	•
	GEYLON	•	•	:	•	:	:		:	•

*1 for Macropolo

Source. -- M/s. Molins of India Ltd.

ANNEXURE XXIII—Contd.

Machine Seals—Molins of India Pa7RO Filter Plug Assembler

Codfrey Philips (I) Limited 1 1 1 1 1 1 1 1 1				1970	1971	1972	1973	1974	1975	1976	1977
Limited											
Limited	I.T.C. Limited	•	· •	:	:	:	:	ಣ	:	-	-
	Godfrey Philips (I) Limited	•	•	•	•	:	:	-	:	:	;
र्वाज्यसम् योजस	Golden Tobacco Company Limited	•		:	:	•	:	:	-	:	;
	Vajir Sultan Tobacco Company Limited .	•		:	:	:	:	:	:	:	64
	National Tobacco Company Limited	•			8		•		:	:	:
ASIA TOB (New)	J & K (New)	•		्रा स्था	1		:	:	:	•	:
Alpha <td< th=""><th>ASIA TOB (New)</th><td>•</td><td></td><td>े व न</td><td></td><td></td><td>:</td><td>:</td><td>-</td><td>•</td><td>- •</td></td<>	ASIA TOB (New)	•		े व न			:	:	-	•	- •
B.T.C. (B'Desh)	Alpha	•		यन यन			:	:	:	•	:
GEYLON TOB	B.T.C. (B'Desh)	•	•		:	3	:	:	7	:	.:
	CEYLON TOB	•	•	:	:	:	•	:		-	: }

Source. -- Molins of India Ltd.

ANNEXURE XXIII-Contd.

Machine Sales-Molins of India

MK8SM/PATRO Combination Filter Tipped Cigarette Making Machine

87						ANNEXU	ANNEXURE XXIII—Contd.	Contd.					
/ 8 J					7	Machine Sales-Molins of India	es-Molins	of India					
V of L			MK	1/WS8	PATRO C	ombination F	iller Tipped	MK8SM/PATRO Combination Filter Tipped Cigarette Making Machine	sking Machi	ģ			
I & CA						1970	1971	1972	1973	1974	1975	1976	1977
ND													
6 I.T.C. Limited			•	•		:	:	:	\$	87	က	64	
Godfrey Philips (I) Limited	(I) Limited	•	•	•	•	;	:	;		-	οι.		•
Golden Tobacco Company Ltd.	Company Ltc		•	•	•	:	:	:	:	:	:	:	•
Kajir Sultan Tobacco Company Limited	acco Compan	y Limited	•	•		:	:	:	•	:	:	:	:
National Tobacco Company Limited	o Company L	imited	•	•	•	6	9		:	:	:	:	:
J. K (New)	•		•	•		स्यम्	h		•	:	****	•	:
ASIA (New)	•	.•	•	•	•	् व ज			:	• • •	• •	•	:
ALPHA	•	•	•	٠	,	श्रेट यते			•	;	-	:	:
NEPAL	•	•	•	•	•		•	3	•	:	:	:	:
CEYLON .	•	•	•	•	•	:	? .		•	:	:	 ,	
SUDAN	•	•		•		:	•	* :*. •	:	:	:	:	-

Source. - M/s. Molins of India Ltd.

ANNEXURE XXIII—Contd.

Machine sales—Molins of India

M2 Duplex Shell and Slide Gigarette Packing Machine

						1970	1971	1972	1973	1974	1975	1976	1977
I.T.C. Limited	•	. •	•	•	•	:	:	ιĊ	4	8	:	:	:
Godfrey Philips (India) Ltd.) Ltd.				•	:		-	:	:	:	;	:
Golden Tobacco Company Limited	any Limited	•				:	∕ ભ	:	87	:	:	•	:
Vajir Sultan Tobacco Company Ltd	Company Ltd.	:			•	:	parel .		:	:	:	:	:
National Tobacco Company Ltd.	pany Ltd.				•	2	9	The state of the s	:	:	:	;	•
J & K (New)				•		स्या स्या			:		-	:	•
ASIA (NEW)	•					्र व न			:	:	:	:	:
NEPAL .	•				•	्र यने	7		:	:	:	:	:
CEVION	•	ě			•		:	3	:	:	:	:	:
SUDAN	•	•	•			:	:		:	:	:	:	-
VIPHA	•					:	:	:	:	:	**	:	
										,			

Source, -- M/s. Molins of India Ltd.

ANNEXURE XXIII—Contd.

Machine Sales-Molins of India

M2 10 Single Track Shell and Side Cigarotte Packing Machine

				1970	1971	1972	1973	1974	1975	1976	1977
I.T.C. Limited				:	:	-	:	:		:	:
Godfrey Philips (India) Ltd	•	•	•	:	•	:	64	-	:	:	;
Golden Tobacco Company Ltd.		•	•	:	:	-	7	:	:	:	:
Vajir Sultan Tobacco Company Ltd.	•	•		:	:	:	:	;	;	•	:
National Tobacco Company Ltd.	•	•	•		8	4	:	:	:	:	:
ASIA (NEW)		•	٠	् एक् सद्या	舞り		:	:	7	7	:
NEPAL		•	•	्र विज			:	:	-	:	:
EL NASR	•	•	•	्ट यने	Y		:	:	4	:	. :
HYD. DECCAN	•	•		}	:	3	-	:	• :	:	:

Source.—M/s. Molins of India Ltd.

Annexure XXIII—Conid.
Machine Sales—Molins of India
General Purpose Wrapping Machine

					1970	1971	1972	1973	1974	1975	1976	1977
I.T.C. Limited	•		•	. •	:	:	ଜ	•	:	:	:	:
Godfrey Philips (I) Limited .	•	•	•	•	:	:	4	:	. •	:	•	:
Golden Tobacco Company Ltd.	•	•	•	•	:	•	3	•	:	:	:	:
National Tobacco Company Ltd.	•	•	•		8	:	8	:	:	::	•	:
ALPHA TOB		•	•		1	1		:	:	-	:	::
NEPAL		•	•		२(८) व्योग			:	:	-	:	:
PM4 PLUG MAKER					्रार्थः जयन							
FILTRONA	•	• -	•	•)	9		:	:	1	•	•

Source .- M/s. Molins of India Ltd.

Annexure XXIII—(Contd.)
Sale of machines—Molins of India

											-				
New Units	S.						:	1970	1971	1972	1973	1974	1975	1926	1977
MK8 SM	•	•					•	:	:	:	: .	1	1.	:	:
PA 7 RO .	• .	•		٠		•		:	•	:	:	:	1	:	:
MK8 SM/PA7RO	•	•	•	•	•		•	:	:	:	:	:		:	:
M2 DUPLEX	•		•	•		. •	•	:	:	•	:	 -	1	:	:
M2 10 .	•	•		•	•	•	•	:	:	4	:	:	8	3	:
WRAPPER .		•	•		•		41.4				:	:	:	:	:
OLD UNITS							177	ina s							
MK8 SM		•	•	•	•		1913		1 4		:	6	1+2(E)	:	. :
PA7RO .			•					}	:	3	:	വ	1+2(E)	0+1(E)	ŝ
MK8 SM/PA7RO	•	•						:	:	:	œ	4	5+1(E)	4+1(E)1+1(E)	ञ
M2 DUPLEX			•	•	•		•	а	4	8	9	2	0+1(E)	$0+1(\mathbf{E})$	a)
M2 10 .								:	:	2	r.		$0+5(\mathbf{E})$:	:
WRAPPER .				•				2	:	12	;	:	$0+2(\mathbf{E})$:	:
FM 4					•		•	:	:	:		:	:	:	:
NOTE: (E) Stands for Exports.	s for]	Expor	ts.			;	.	:							

Source. -M/s. Molins of India Ltd.

Annexure XXIV

Technological Improvements by Molins of India

- 1. Pencil Paster for MK 8 SM Cigarette Maker-Material Saving/Improved efficiency.
- 2. Tungsten Carbide Impregnated Carniture for MK8 SM Maker-Improved efficiency.
- 3. Automatic Knife Advance Mechanism for MK8 SM Cigarette Maker-Improved efficiency.
- 4. Electronic Memory Unit for Cigarette Packing Machines-Improved efficiency.
- 5. New Turretless gravity feed hopper for Cigarette Packing machine-Improved efficiency.
- 6. Solid Slat converyor for MK8 Cigarette Maker-Material saving/Improved efficiency.
- 7. Solid Paste Wheel for MK8 SM Maker-Material saving.
- 8. New Shorts Tray design to accommodate 7000 metre Bobbin on Maker—Improved efficiency.
- New Fluted drum to suit minor size Cigarettes on PA7RO Filter Assembler—Improved efficiency.
- 10. Development on packing machines to suit minor sized cigarettes-Improved efficiency.
- 11. Development on old MK5 cigarette maker to suit minor size cigarettes—Improved efficiency.
- 12. Development of suction pump and airline fitments on PA7RO Filter Assembler—Improved efficiency.
- 13. Development of Suction Fan for MK8 SM Cigarette Maker—Improved efficiency.
- 14. Development of Fan and Silencer assembly for PA7RO Filter Assembler—Improved efficiency.
- 15. Modification fluid drive coupling for Cigarette Maker-Material saving/Improved efficiency.
- 16. Foil Tension arrangement for packing machines-Improved efficiency.
- 17. · Quick release knife carrier for PA7RO Filter Assembler—Improved efficiency.
- 18. Brake Arrangement on MK8 SM Maker-Material saving.
- 19. New four-segment conveyor band for TCM Tobacco Cutter—Improved efficiency.
- 20. V-belt drive for cleaner roller of TCM Tobacco Cutter-Material saving/Improved efficiency.
- 21. Modification on level control in the MK8 SM Cigarette Maker—Material saving/Improved efficiency.
- 22. New Print registration for MK8 SM Maker—Improved efficiency.
- 23. Free standing Electrical console unit for MK8 SM Maker—Labour saving/Improved efficiency.
- 24. Device for perforation of Mylar Tapes for PA7RO Filter Assembler-Improved efficiency.
- 25. Feed Nut and Screw with modified profile for TCM Tobacco Cutter-Improved efficiency.
- 26. New design air cell assembly for MK8 SM Maker—Improved efficiency.
- 27. New design PA7RO main frame in two halves instead of on piece—Material saving/Improved efficiency.
- 28. New Angle Gear Box for MK8 SM Maker—Improved efficiency.
- 29. Hopper Speed Variator for MK8 SM Maker-Improved efficiency.
- 30. Dust Collector Unit for Cigarette maker or TCM-Material saving/Improved efficiency.
- 31. Modification on the Skip Feed arrangement of MK8 SM Maker for easy maintenance—Labour saving/Improved efficiency.
- 32. New Geneva Type indexing mechanism for various machines—Improved efficiency.
- 33. Solid end Closer for PA7RO—Material saving/Improved efficiency.
- 34. Hydraulic weight control in MK8 SM Maker—Improved efficiency.

Annexure XXV

Excise Revenue From Tobacco and Tobacco Products in India

(Rs. in Crores)

Year				 				Unmanu- factured	Manufactured	Total
1971-72			•		•	•	•	88.76	220.16	308.92
1972-73				•			•	94.90	196.15	291.05
1973-74	•		•					89.06	235.74	324.80
1974-75		•			•		•	89.71	297.64	387.35
1975-76								94.11	335.48	429.59*
-										(Provisional)

Source -1971-72 to 1974-75

1975-76

Directorate of Statistics and Intelligence, Central Excise, Government of India, New Delhi.

[&]quot;Customs and Excise Revenue Statement of the Indian Union" Department of Commercial Intelligence and Statistics, Government of India.

^{*}Excludes collections under Auxilliary duties.

ANNEXURE XXVI

Arenco-RMB NV

Machinery Division of the Swedish Match Group

VULCAN-LAVAL LIMITED

P.O. Box 53
Poona-411001
India
att. Mr. V.A. DATAR
Our Ref. Mo/Ve Best. April 21st, 1978

Concerns: Arenco Band Tobacco Manufacturing System DIB

Dear Sirs,

We refer to your different telex lately. In our telex of April 1 we indicated the following prices:

- (1) 1 Band Tobacco Plant, type DIB-408 E with an output of 55 kg cigarette filler per hour at dfl. 1.500.000,—cif Bombay.
- (2) 1 DIB-608 E with an output of 100 kg/h at dfl. 2.500.000,—cif Bombay.

In both cases the foil making machines are equipped with electrical drying ovens. One advantage with our DIB plants is that also gas-fired ovens for all types of gas can be used. Also oil-heated systems can be designed. These non-electrical ovens are generally somewhat more expensive but for the operating cost the cheapest kind of energy would be chosen.

In order to reduce the price of our smaller band tobacco plants, DIB-408, DIB-508 and Mini-DIB we have excluded the drying section. Compare enclosed drawings No. 3-DI 15072 and 3-DI 15063 with 3-DI 15062. With regard to the comparatively low capacities many customers can use their usual tobacco dryers. It means, however, that the tobacco waste for these smaller DIB plants must fulfil the following requirements:

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- 1. Moisture max. 12%
- 2. Size max. 15 mm
- 3. Sand contents max. 12%

In case a customer would insist on a drying plant we can of course supply it. We are flexible like the DIB system.

The indicated prices are based on our present cost level and on normal terms of payment. Inspite of that they are without engagement.

As you know, we have during the past years overhauled the DIB system, especially what the equipment concerns.

In order to have a better control of the ingoing tobacco material, there are now 2 feeders (drawings No. 3-DI 15072 and d-DI 15062, pos. 010) one for dust and one for stems.

The previous sifter has been replaced by a new timbler screening machine (pos, 030-4) that gives a better sifting result. As this new tumbler screener is placed directly on the floor, hanging up arrangments and reinforcements of ceiling etc. are eliminated. Thus lower installation costs.

The mixing plant (pos. 040) has been almost fully automized. To low-wage countries we can still deliver less automized plants at somewhat lower prices.

We have here just mentioned some essential improvements. FOR DIB-608 and larger plants the standard equipment will be in accordance with drawing 3-DI 15062. Of course a lot of details have been updated.

Other technical advantages with the DIB system:

- (1) It is easy to adjust to different customers' requirements and local conditions.
- (2) With small changes and some extra equipment cigar binder can be produced in the same plant.
- (3) Is not so sensible against sand. Up to 15% sand can be accepted. This is, however, a question how much sand the customer will accept in the ready foil.
- (4) All types of tobacco can be used.
- (5) All sorts of offal tobacco can be used. No special claim of a minimum percentage of e.g. stems, but certain quantity of coarse tobacco in order to get the necessary quantity of powder.
- (6) All necessary and recommended chemicals and additives are accepted by authorities of the countries we know. They are also produced in most industrial countries.
- (7) Is easy to learn and operate. During the erection and running in the customer's personnel is instructed by Arenco's erection staff. To operate the plant a couple of good machinery mechanics and a couple of assisting workers are enough. To manage the plant a chemical engineer with experience of tobacco some administrative knowledge is recommended.

Economical advantages are more difficult to indicate exactly before one knows the actual case. In order to reach the best economy, 3 shifts or at least 2 shifts are recommended.

The manufacturing costs vary of course very much from country to country, but say Dfl. 1,—/kg band tobacco and you have a competitive price against natural tobacco. A pay-back time of 1-2 years must be considered as very favourable for investments of this size. May times this time can be shorter.

We hope that these arguments for the DIB-system will help you in your negotiations with your government. If you need more assistance, just tell us.

Yours faithfully, b.v. ARENCO—PMB Product Group Band Tobacco (Sd)-O. MORNER Sales Manager

ANNEXURE XXVII

ARENCO-CARDWELL, INC.

ARENCO-CARDWELL, INC.

MACHINERY DIVISION OF THE SWEDISH MATCH GROUP

April 7, 1978

Mr. V.A. Datar, Managing Director Vulcan-Level Limited Bombay-Poona Road Dapodi Poona 411012 India

Dear Mr. DATAR:

Subject: Arenco-Cardwell Tobacco Leaf Processing System

In accordance with your request, I am pleased to submit the following pertinent to the Arenco-Cardwell tobacco leaf processing system:

The Arenco-Cardwell system of producing high quality lamina from all types of tobacco leaf grown in the world today is the result of many years of development of machinery for and the study of the leaf tobacco industry's requirements. The individual components of machinery that make up the Arenco-Cardwell system are designed to produce superior results regardless of the input form of the tobacco leaf (loose leaves, hands, bales, etc.), as well as leaf in a green (cured) or redryed state. The systems are available with capacities up to 25,000 pounds per hour of tobacco leaf in a single line configuration.

- 1. The Arenco-Cardwell system consists of the necessary machinery components to introduce the tobacco leaf in to the system for optimum results. This includes:
 - (a) Tipping Tables
 - (b) Tie Leaf Cutters
- (c) Bulk Feeders
- (d) Bale Cutters
- (e) Delaminators
- (f) Conveying Systems.

Each of these machinery components is available in an arrangement and capacity to suit the many varied requirements of the world tobacco industry.

- 2. Conditioning the tobacco leaf is recognised as the most important factor in the production of high quality strip. For this reason, Arenco-Cardwell produces ordering cylinders of many sizes and capacities to insure the proper function of this most important machinery component. The ordering cylinders, which range in size from 3' diameter $\times 10'$ long to 10' diameter $\times 40'$ long, have the following capabilities:
 - (a) To apply water in spray form in controlled amounts.
 - (b) To apply steam in controlled amounts.

- (c) To supply hot air at controlled temperatures.
- (d) To discharge conditioned tobacco leaf in a uniform manner to the threshing operation.
- 3. The Arenco-Cardwell seires of first stage double rotor threshers and subsequent stages single rotor threshers are of the very latest design and are manufactured in a variety of sizes to exactly match the designated capacity requirements.

The double rotor threshers is available in the following sizes:

- (a) 96" wide
- (b) 72" wide
- (c) 60" wide
- (d) 48" wide
- (c) 42" wide
- (f) 30" wide

The Arenco-Cardwell threshers achieve the following results:

- (a) Remove the lamina from the stem with the highest degree of acceptable lamina particle size.
- (b) Produce the lowest possible quantity of un-acceptable particle size.
- (c) Produce the highest efficiency of lamina removal consistent with desired lamina size.
- (d) Produce a form of mixture of threshed lamina and stem that can be more easily separated.
- 4. The Arenco-Cardwell RP-L Tobacco Separator is the most recently developed, widely tested and accepted machine available and is currently being used and specified for use all over the world to replace the presently used and available equipment. This series of machines is available in the following sizes and capacities.
 - (a) RP-L 25-96" wide-up to 25,000 pounds per hour
 - (b) RP-L 18-72" wide-up to 18,000 pounds per hour
 - (c) RP-L 10-48" wide-up to 10,000 pounds per hour
 - (d) RP-L 5-36" wide-up to 5,000 pounds per hour

The design concepts utilized in the Arenco-Cardwell RP-L Tobacco Separator produces the most efficient separation of free Lamina, the most efficient use of energy consumed per pound of tobacco produced, the easiest machine to control and service, as well as the least demand on expensive factory floor space. The entire threshing and separating operation is completely enclosed for the highest degree of cleanliness and personal safety.

- 5. The Arenco-Cardwell system also provides for the removal of dust, sand, and tobacco particles of any selected size by the inclusion of the following equipment:
 - (a) Rotary screening drums which range in size from 3' diameter ×10' long up to 19' diameter ×32' long.
 - (b) Vibrating shakers.
 - (c) Multi-deck scrap sizing shakers.
 - (d) Automatic self-cleaning dust collecting systems.

- 6. The advantages that the Arenco-Cardwell system represents are as follows:
- (a) The most efficient leaf tobacco handling, conditioning, threshing and separating system producing the highest yield of usable lamina.
- (b) The flexibility of component selection for the system allows selection of lamina size, stem content of lamina, stem size, lamina content of stems, etc., to suit each customer's requirements.
- (c) The long experience of Arenco-Cardwell has resulted in machines that require very little maintenance by non-technical personnel.
- (d) The operation of the machinery is simple, which allows operators to be trained in a short period of time.
- (e) The first cost per pound of product processed is low.
- (f) The continuing cost of operation is low due to decreased energy and maintenance costs.
- (g) Less floor space is required, allowing increased production in existing factory area.
- (h) The lower use of exhaust air reduces the quantity of air control equipment necessary.

7. Performance Data

The following specifications are typical for an average leaf tobacco specifications:

Bright Virginia
Leaf Grade
Green Condition (Cured)
Whole Leaf Threshing
Stem Content of Whole Leaf 27%
Lamina Content of Whole leaf 70%
Average Moisture Content 15 to 16%
Average Sand Content 3%

Typical results for the efficient threshing and separation of the tobacco leaf described should give the following:

```
Dry Basis Yield: Strips —69%
Strip Size Over ½" Mesh —82.28%
Over 1/8" Mesh—15.45%
Under 1/8" Mesh—2.27%
Stem Content of Lamia —1.94%
Lamina Left on Stems — .57%
```

The Arenco-Cardwell system is installed and operating in all parts of the world, an all types of tobaccos for the preparation of cigarette cut rag, cigar short filler, chewing tobacco, smoking tobacco, etc. This newest generation of Arenco-Cardwell Leaf Processing components has replace the CARDWELL classifier, as well as leaf processing machinery manufactured by our competitors. We are confident that Arenco-Cardwell Leaf Processing machinery is superior to tobacco leaf processing machinery now available in India.

We are hopeful that our latest designs can be made available to the tobacco industry in India.

With warm regards,

Yours very truely,

ARENCO-CARDWELL. INC.

(Sd/.)

HENRY S. HOLLAND, III President.

Annexure XXVIII

A Note by the Applicant Company Regarding Working Capital used by it in relation to the Tandon Committee

Norms

The Tandon Committee had suggested 2 methods of calculating bank finance to be made available for meeting the working capital needs of companies and had recommended that while companies could, to start with, follow the first method in arranging their working capital funds, they should gradually limit their total current liabilities including bank borrowings to a level not exceeding 75% of their current assets, as per the second method of financing working capital.

As will be clear from the enclosed statements, in 1977 Vulcan-Laval satisfied the Tandon Committee norms under the first method. The Company's borrowings however, exceeded the norms under the second method by Rs. 31 lakhs (roughly 12% of the bank borrowings). It may be noted here that the Company is engaged in the execution of turn-key projects spread over a period of 6/18 months per contract. For execution of such capital intensive projects, the Company receives advances from its customers for procurement of stocks. The amount of such advances as on 31st December 1977 was Rs. 86 lakhs. It was the inclusion of these advances in current liabilities that resulted in the Company not satisfying the Tandon Committee norms under the second method in 1977.

After the proposed share issue in 1978, Vulcan-Laval will be well within the norms prescribed by the Tandon Committee under the second method as well.

ANDERTURE XXIX

The Chairman,
Monopolies And Restrictive Trade Practices Commission,
Travancore House,
Kasturba Gandhi Marg,
New Delhi 110 001.

CO/MRTP-TEC/78

June 8, 1978.

DEAR SIR.

Sum: Enquiry under Section 21(3) (b) of the MRTP Act, 1969—Our proposal for substantial expansion of activities by way of manufacture of Plant, Machinery and Equipment for the processing of Tobacco and for the manufacture of Tobacco Products.

At the meeting on 24th May, 1978, you were pleased to enquire if we could include filter-tipping machines in our cigarette machinery manufacturing programme.

We wish to confirm that we are prepared to include the filter tipping machinery and to drop the tray-filler and the tobacco cutting machine from our programme. Therefore, there will be no change in the overall know-how fee of approximately Swedish Kroners 1.5 million for the proposed programme.

Yours faithfully,

VULCAN-LAVAL LIMITED,

(Sd.)

V.A. DATAR

Managing Director.

ANNEXURE XXX

The Controller,

Exchange Control Department,

Reserve Bank of India,

Fort, Bombay—400 001.

MD: VAD/78

May 13, 1978

DEAR SIR,

Sub: Permission to Carry on Business under Section 29 (2) of F.R.R.A., 1973.

We thank you for your letter CD. FCS/3834/407 (Activity)/78 of 5th/7th April, 1978 in which you have permitted the Company to carry on business on condition that the non-resident interest in the equity capital be reduced to a level not exceeding 40% by 30th September, 1978 and that as long as the non-resident interest continues to be above 40%, certain other specified restrictions will apply. We have been asked to submit a scheme by 15th May, 1978 indicating how the reduction in non-resident interest will be brought about.

Accordingly, we have outlined below our scheme indicating the detailed manner in which this reduction in non-resident interest is proposed to be brought about. We have also given details of our need for additional capital and the productive use to which it will be put after being brought into the company as a result of the proposed change in the equity structure.

Our scheme of dilution of non-resident holding rests on a partial disinvestment and a Rights Issue. Its main features are—

- 1. Subject to your permission under FERA, 1973, a disinvestment of Rs. 0.8 million by Swedish Match Company and of Rs. 0.4 million by Alfa-Laval AB—the two main foreign shareholders—is envisaged. The disinvested shares will be offered at a premium partly to the Industrial Credit and Investment Corporation of India Ltd. against the conversion option of a loan recently sanctioned by them to us and partly to other financial institutions.
- 2. Shares of a face value of Rs. 0.41 million (i.e. 5% of the net increase in capital) will be offered to the company's Indian employees, Directors and business associates, also at the same premium.
- 3. The balance of Rs. 7.91 million will be offered as Right shares to the existing Indian Shareholders (which include some directors, employees, bodies corporate and public financial institutions) in the ratio of nine shares for very five held, again at the same premium.

The form, content and manner of implementation of the scheme are subject to approval from the Controller of Capital Issues, New Delhi.

The present pattern of our shareholding and the equity structure as it will be altered after the proposed scheme of reduction of non-resident holding are tabulated below:

			at fa valu	ounts	Shareholding %	Altered Amount at face value (Rs. million)	Shareholding %
A.	Non-re	sidents					
	(a)	Swedish Match		6.97		6.17	
	(b)	Alfa-Laval		3.48		3.08	
	(c)	Individuals		0.01		0.01	
			-	10.46	70.41	9.26	
В.		Employees, directors and asso ates.	ci-	*	•	0.41†	39.95
C.		Public Financial Institutions	~E	0.81	5. 4 8	3.48	1.78
D.		General Public		3.58	24.11	10.03	43.25
				14.85	100.00	23.18	100.00

^{*}Separate figures are not readily available. The present holding of this category, which in any case is not significant, is merged into the holding of the general public.

Assuming that we are permitted to issue the shares at a premium of Rs. 6/- based on yield and break-up value considerations (the market value is over Rs. 29/- for a Rs. 10/- share), the company will have raised Rs. 8.32 million by way of subscription at face value and Rs. 4.99 million as premium.

We need this capital of Rs. 13.31 million to finance—

		Rs. million
(i)	Our diversification schemes which have received the requisite Government approval	6.05
(ii)	investment in R & D facilities required by the Government when the Department of Science and Technology recognised our R & D Unit	3.20
(iii)	upgradation and modernisation of production facilities essential for adopting improved manufacturing techniques and improving the existing machine designs to incorporate more sophisticated technological features	4.06
(Ple	ase refer Enclosure I)	

You will notice that our approved and on-going diversification and modernisation programme require a total capital of Rs. 17.75 million, to which the proposed capital issue will contribute Rs. 13.31 million. The remaining need of about Rs. 4.0 million for these programmes is being financed out of the term loan of Rs. 5.0 million which is already sanctioned by I.C.I.C.I.

[†]This figure will be higher to the extent of the present holding of employees, directors and associates and the rights that they may subscribe to in the new issue. The figure under 'D' will be correspondingly less.

The approved schemes mentioned above, of which details are given in Enclosure I of this letter pertain to

- (a) the manufacture of foundry machinery and hydraulic presses and extension of the tanning machinery product line,
- (b) R & D facility which has received recognition from the Department of Science and Technology, subject to the implementation of certain programmes to the financed from this capital issue, and
- (c) modernisation and updating of our manufacturing resources with a view to achieving cost reduction and quality improvement and thereby maintaining our competitiveness and continuity of good quality service to our customers in India and abroad.

The Company also has immediate needs of additional capital (see Enclosures II) for balancing equipment, including the purchase of a Diesel Generating Set to cope with the continuing shortage of electric power (Rs. 4.0 million) and to improve its working finances (Rs. 9.5 million).

The Company is under-capitalised as evidenced by the fact that Shareholders' funds at present are financing only Rs. 25 million out of the total assets of Rs. 98 million. For meeting the Tandon Committee norms according to the second method, we must limit the current liabilities, including short-term bank borrowings, to under 75% of current assets. The limitations on the acceptance of public deposits by non-banking companies will mean that the company's ways and means position for sustaining its profitable growth has to be strengthened through other means.

Since the anticipated increase of Rs. 9.5 million in the working capital can be met only to the extent of 75%, i.e., Rs. 7.1 million through additional bank borrowings out of which again Rs. 3.1 million may be held back on the basis of Tandon Committee norms, we do not rely on new finance from this source to exceed Rs. 4.0 million.

We have, therefore, planned to finance the above requirements through internal resources, viz., a partial plough back of Rs. 10 million over the next three years by way of depreciation and profits and a limited increase in bank borrowings to the extent of Rs. 4.0 million.

In the last 5 or 6 years, the Company has increased its turnover from around Rs. 5 crores to over Rs. 10 crores. The current year's prospects point to a turnover of Rs. 12 crores. The prospects of the company are such that in favourable circumstances, we will be able to achieve a turnover of over Rs. 20 crores within the next 6 or 7 years. This proves that the company has the will and the capacity to expand and diversify into sophisticated areas. Access to know-how on payment of appropriate fees is also assured in view of the company's overseas association. The company is professionally managed by young, dynamic and experienced personnel. The gross profit of the company has always been around 10% of turnover. In view of the sophisticated product designs and expansion/diversification plans made by the company for meeting the requirements of widely dispersed market segment we may expect this profitability to be maintained, subject to continued inputs of required capital and skilled manpower. An adequate return is, therefore, definitely foreseen on the increased capital base.

This is doubly assured by the large number of manufacturing projects which are proposed to be undertaken by the company for which Government permission is either awaited, as in the case of tobacco machinery or will be sought very soon, e.g., larger and more sophisticated range of machinery for the dairy, vegetable oil, power generation and foundry industries, and specialised fabrication in exotic anti-corrosive materials of construction for defence, atomic energy, fertiliser and chemical industry needs. You will realise that the industries which we serve with our products play a fundamental role in developing the basic infrastructure of our country.

Dairying has been chosen by the Government, as an instrument for the social and economic betterment of the rural households. The co-operative organisations of the growers of oilseeds are being strengthened to allow them to control the oil processing industry and they are expected to expand the processing facilities in a big way. Increased power generation is recognised as a key activity without which no economic progress is possible. The importance of defence, fertiliser and chemical industries is evident. Foundry is basic to all engineering production.

In view of our engagement in such economically vital areas and in view of our technological ability and willingness to contribute to progress, we feel that our plans for further diversification and expansion of machine building activities will receive full Government support.

We further believe that for these reasons and particularly in view of the recently liberalised licensing procedures, which will also supply to companies with 40% foreign holdings, the necessary approvals of the Government will be forthcoming speedily once we submit our applications very shortly.

We trust that you are in agreement with the foregoing proposal. Unless we hear from you to the contrary within a fortnight, we will go ahead and file our application with the Controller of Capital Issues in accordance with the Scheme submitted in this letter.

We have noted that we shall have to bring down the foreign equity to the desired level by 30th September, 1978. We shall spare no pains to try and carry out the disinvestment and the new issue of capital within this period. We have drawn up a time schedule and net-work of all the activities involved in this Issue. Please see Enclosure III. This shows that we will require an extension of time by at least one month, if all the decisions are made and activities completed strictly as per the chart. Should further extensions become necessary for reasons outside our control, we do hope that you will allow us the required time for completion of the Issue.

Thanking you,

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Yours faithfully,

VULCAN-LAVAL LIMITED,

(\$d.)

V. A. DATAR

Managing Director

Encl.: As above.

ENGLOSUME I

USE OF FUNDS RAISED BY INCREASING SHARE CAPITAL OF THE COMPANY FROM Rs. 14.85 M TO Rs. 23.18 M

1. CAPITAL COST OF GOVT. APPROVED PROJECTS

A.	Dive	ersifica	ntion Programmes						
	(i)	For	Tanning Machinery .	• •	•			Rs. 2.80 M	
		Less	s already raised by Issue of Cap	ital in Is	9 77			Rs. 0.55 M	Rs. 2.25 M
	(ii)	For	Foundry Equipment .	• ,	•				Rs. 1.15 M
	(iii)	For	Hydraulic Press	• , •	•	•			Rs, 2.65 M
									Rs. 6.05 M
В.	For 1	Existi	ng Product Lines						
	(i)	the abso designimp	Research & Development Proceedings of the Company to develop new application of the company of t	ications : ed techn port subs	for pro ology titutio	oducts to cre n, and	, to		
		(a)	Prototype Workshop .		稳		•	Rs. 2.00 M	
		(b)	Installation of pilot plants		300			Rs. 1.00 M	
		(c)	Other Laboratory equipment	etc	<i>9</i>			Rs. 0.20 M	Rs. 3.20 M
	(ii)	lates com	modernisation of manufacturing technical developments in Indepetitive in local as well as exportistication, cost & quality point	lia & abr rt market	road so	as to	be		
		(a)	Large Radial Drilling Machin	c.	100		•	Rs. 2.00 M	
		(b)	Spinning & Flanging Machine	अम्ब न	1त			Rs. 2.00 M	
		(c)	Bowl Balancing Machines .	•	•	•	•	Rs. 3.00 M	
		(d)	Programme controlled lathe.		•	•	•	Rs. 1.50 M	
									Rs. 8.50 M
				Тот	AL A	⊦B			Rs. 17.75 M
2.	ADDI	TIO	NAL CAPITAL AVAILABIL	ITY					
Α.	(i)	Face	Value of issue of new shares .						Rs. 8.32 M
			nium at Rs. 6/	•		•			Rs. 4.99 M
	` ,		,						·
	TP	1	Com ICICI						Rs. 13.31 M
В.			from ICICI 20% conversion at premium)						Rs. 4.00 M
	12100	autei	20 /0 Conversion at premium,						

ENCLOSURE II

1. OTHER IMMINENT NEEDS OF CAPITAL

A.	Bala	ncing Facilities fo	r existi	ng pr	oduct	lines	:							Rs. M
	(a)	Crane and gentr	y							•		•	•	1.0
	(b)	Dishing Press		•			•			•		•	•	1.0
	(c)	Power Generator	for ca	pitive	use	•		•	•			•		2.0
В.	Incr	eased need of wor	king ca	pital		•	•	•	•	•		•	•.	9.5
											То	DTAL,	•	13.5
2.	POSS	IBLE SOURCES	OF A	TIỢD	'ION	AL F	UND	S						
A.	(i)	Bank borrowing	@ 7.5 %	₀ eligi	bility		•	•		•	•			7.1
	(ii)	Less on application	on of T	ando	n Cor	nmitt	ee no	rms (s	ccond	meth	od)			3.1
					A			à		•	Net	• -		4.00
В.		tial plough-back r servicing the inc				Depre	eciatio	on ar	nd ant	icipa	ted pr	ofits		10.00
					V					Τ	'OTAL			14.00

सन्धमन जयत

ANNEXURE XXXI

VULCAN LAVAL LIMITED

ALLAHABAD BANK BUILDING, 17, PARLIAMENT STREET, NEW DELHI-110001.

The Chairman
Monopolies And Restrictive Trade Practices Commission
Travancore House
Kasturba Gandhi Marg
New Delhi 110 001.

OUR REFERENCE CO/MRTP-TBC/78

June 8, 1978

DEAR SIR.

TOBACCO MACHINERY PROJECT-EXPORT OBLIGATION

When our proposal for the manufacture of tobacco machinery was approved by the Government, it had stipulated that we should, over a period of 5 years, export from our total range of products and services, upto a value of Rs. 1.5 crores. Out of this, the tobacco machinery export was to be Rs. 35 lacs.

In other words, the emphasis was not on the value of export of tobacco machinery but on the over all export performance and, as an integral part of the permission for manufacturing tobacco machinery in India, we were called upon to export Rs. 35 lacs worth of tobacco machinery and further Rs. 1.15 crores worth of other goods and services.

As the proposal is now being reconsidered by the M.R.T.P. Commission, we are prepared to undertake a somewhat higher export obligation as per the following formula.

In the event of approval of our project, as proposed, in toto our endeavour would be to export a minimum of Rs. 50 lacs worth of tobacco machinery (instead of Rs. 35 lacs agreed to earlier). This will have the effect of raising our total export obligation from Rs. 1.5 crores to Rs. 1.65 crores over a period of 5 years.

Over and above this, we are also preapared to more than make up for shorfall, if any, in the export of tobacco machinery by adding up to one-and-half times of such shortfall to the balance of Rs. 1.15 crores.

The following are a few typical examples of how the formula will operate.

						T	OTAL	Ехро	RT8		Rs. 1.65 cr.
	Short-fall Nil.	Therefore, addi-	tiona	d exp	ort.	•		•	•	•	NIL
	Export of other	Goods & Servic	es	•	•		•	•		•	Rs. 1.15 cr.
(a)	Export of toba	cco machinery	•		•	•	•	•	•	•	Rs. 0.50 cr.

(b)	Export of tobacco machinery		Rs. 0.40 cr.
	Export of other Goods & Services		Rs. 1.15 cr.
	Short-fall—Rs. 10 lacs. Therefore additional export	• .	Rs. 0.15 cr.
	Total Exports		Rs. 1.70 cr.
(c)	Export of tobacco machinery		Nii
	Export of other Goods & Services	. •	Rs. 1.15 cr.
	Short-fall—Rs. 50 lacs. Therefore additional export		Rs. 0.75 cr.
	Total Exports		Rs. 1.90 cr.

It will be seen from the above that in the event of our being able to secure export orders for tobacco machinery of the value of Rs. 50 lacs, our total exports of goods and services over a period of 5 years will be Rs. 1.65 crores. On the other hand, in the event of our being unable to procure any orders whatever for the export of tobacco machinery, our export of goods and services, over a period of 5 years, will go to Rs. 1.90 crores, and in the event of our being able to secure export orders for tobacco machinery, but not of the value of Rs. 50 lacs, our exports will vary between Rs. 1.65 crores and Rs. 1.90 crores.

सन्धमेव जयत

Thanking you,

Yours faithfully, VULCAN-LAVAL LIMITED, Sd/-

V.A. DATAR

Managing Director.

No. 1/9/77-M (II)

GOVERNMENT OF INDIA

MINISTRY OF LAW, JUSTICE & COMPANY AFFAIRS DEPARTMENT OF COMPANY AFFAIRS

BEFORE THE CENTRAL GOVERNMENT

In the matter of a Notice under Section 21 of the Monopolies & Restrictive Trade Practices Act, 1969

AND

In the matter of proposal of M/s. Vulcan Laval Ltd. to effect substantial expansion by undertaking the manufacture of Plant, Machinery and equipment for the Processing of Tobacco and for the manufacture of Tobacco Products.

M/s. Vulcan Laval Ltd. (hereinaster referred to as "the applicant Company") gave a Notice dated 4-8-1977 under Section 21 of the Monopolies & Restrictive Trade Practices Act, 1969 (hereinaster referred to as "the Act") to effect substantial expansion by undertaking the manufacture of plant, machinery and equipment for (i) processing of Tobacco and (ii) manufacture of Tobacco products in technical collaboration with M/s. Arenco AB, Sweden of the value of Rs. 47 lakhs in the first year going upto Rs. 240 lakhs per annum in the fifth year. The project cost of Rs. 148.50 lakhs was proposed as under:—

COURS.

		AR	28	Es.						(Rs. lakhs)
Land		E				•				NIL
Buildings		651		372						5.00
Plant & Machinery		1000		189		•				53.50
Technical Know-how	•	1/	l iAi	Į.		•	•	•	•	30.00
		gt.		77					•	88.50
Raw material, Custom	ers' O	utstar	ding	less ad	vance		•	•	•	60.00
		सह	प्रमेव ज	यने					•	148.50

The cost of imported capital equipment was estimated at Rs. 5.50 lakhs and that of imported raw materials at Rs. 18.39 lakhs over a period of 5 years.

- 2. The above project cost of Rs. 148.50 lakhs was proposed to be met through an issue of share capital to be made in due course to dilute the foreign equity in the company from the existing level of 70:41% to 51% under FERA. The proceeds of the share issue including anticipated premium would be Rs. 85 lakhs. Any finance required for the project over and above the proposed share issue and after considering internal accruals would be made available as and when required through loans from banks/financial institutions on their normal terms and conditions.
- 3. The applicant Compnay belongs to Swedish Material group and is registered under Section 20(b)(i) of the Act. It is also registrable u/s 20(a)(ii) of the Act. It is a foreign majority company with 70.37% of non-resident shareholdings. It is engaged in the manufacture of equipment for and the installation of complete projects in the Dairy, Food and Beverage Processing and Food Preservation industries.
- 4. The applicant Company published public notices as required under MRTP Rules, 1970. An objection against the proposal of the company was received from M/s. John Fowler (India) Ltd. Bangalore and this objection was also supported by the State Government of Karnataka.

5. On consideration of the available information, the Central Government was of the opinion that an order on the proposal of the applicant company could not be made without further inquiry. Accordingly, the proposal was referred to the Monopolies & Restrictive Trade Practices Commission (hereinafter referred to as "the Commission") for an inquiry and report under Section 21(3)(b) of of the Act. The Commission submitted its report recommending approval of the proposal on the following lines and subject to the following conditions:—

Proposal as Recommended by the Commission

- (i) "The proposal of the applicant Company insofar as it relates to cigarette making machinery and cigarette packing machinery permits of being supported on the ground of weakening the stranglehold of the monopoly of the existing producer; the applicant Company is likely to be an useful competitor in this respect holding out promise not only of prices of such machines coming down but even better technology being made available; both of them may even be induced to export a part of their products under the stress of competition.
- (ii) The proposal relating to tobacco processing machinery seems really attractive. It will help weaken the monopoly of the existing manufacturer activate the manufacture of better and more compact machinery, reduce costs of unmanufactured (processed) tobacco and may even improve its quality for export. The introduction of an element of such competition is likely to activate machinery production in this area which seems nearly dormant now and may help reduce the cost of machinery, both for original installation and replacement.
- (iii) The proposal in so far as it relates for the manufacture of machinery for cigarettes and cigarillos is worth pursing from a long run point of view, first to cater to domestic demand and later to develop export market.
- (iv) The proposal in so far as it relates to manufacture of band tobacco is also worth pursuing because it will result in more economic use of available and scarce resources.
- (v) The scheme of finance submitted by the applicant Company, including the foreign exchange aspects of it, is acceptable subject, however, to export obligations commensurate with the foreign exchange outgoings, with benefits likely to accure to the applicant Company by reasons of its range of production being widened and with the fact that an undertaking of the applicant Company's stature is allowed to enter the field of production, an advantage which would not ordinarilly be available to such undertakings.
- (vi) The range of products as finally proposed by the applicant Company should be permitted, the actual and specific items to be produced being left to the assessment of market situation by the applicant Company.
- (vii) Location of the undertaking in so far as it relates to the porposal need not be changed from the present location of the applicant company at Dapodi near Pune."

Conditions as Recommended:-

(a) "The applicant Company should undertake to export every year 20% of its production of cigarette making/tobacco processing machinery for a period of ten years from the commencement of production as per applicant's proposal. This condition can be relaxed by the Government if it is so inclined for the first five years of the project by providing that in case of any short-tall (wholly or partially) in place of cigarette making/tobacco processing machinery, the applicant could export 12 times in terms of value or quantity to the extent of such short-fall (whichever is more valuable) of machinery other than cigarette making/ tobacco processing machinery. It was seen that originally the Ministry of Heavy Industry had approved of the applicant's collaboration agreement on condition that it exported machinery worth Rs. 150 lakhs including cigarette machinery worth Rs. 35 lakhs in the first five years of the project. The applicant Company, during the course of the hearing, has shown its willingness to export, in the course of five years, Rs. 165 lakh worth of machinery including 50 lakh worth of cigarette making machinery/tobacco processing machinery, with a rider that in case of failure to export cigarette making machinery/tobacco processing machinery the applicant will export 11 times in terms of value (to the extent of such short fall) of machinery other than cigarette making machinery. The applicant Company has in affect undertaken to export a maximum of Rs. 190 lakh worth of machinery. (Other than cigarette making/tobacco processing) during the first five years, but the Commission's formula would require them to export Rs. 134.2 lakhs

worth of cigarette making/tobacco processing machinery (20% of the total production, according to given figures of their projections) for the first five years instead of only Rs. 50 lakhs as finally proposed and in the event of the Government giving them the option for first five years they would export other machinery worth Rs. 201.3 lakhs (on the figures of projection supplied by the applicant Company). The formula that the Commission recommends, therefore, is that the applicant Company be required to undertake to export specifically every year either 20% of its total production of cigarette making/tobacco processing machinery or that they export other machinery of the value of 1½ time the value of said 20% or to the extent of the deficiency in the first five years, the said option to export 1½ times the value of 20% or deficiency not being available to the applicant at the expiry of the first five years. The Commission would like the export obligation to continue for ten years from commencement of production as per applicant's proposal, after which the position may be reviewed by the Government.

- (b) The applicant Company will reduce its foreign equity to 40% as required by FERA and as undertaken by the applicant Company.
- (c) The applicant Company will get a clearance of the proposed foreign collaboration agreement and proposed import of capital goods from appropriate Government authorities in the light of modified product mix.
- (d) The loans from financial institutions will be subject to the provision of the convertibility clause.
- (e) The applicant Company will take appropriate steps as advised by the Government in respect of licences issued to it which it has not effectively worked till now."

A copy of the Commission's Report was supplied to the applicant Company and each of the objectors/supporters who had disclosed their interest before the Commission as well as the Central Government.

- 6. The Central Government gave careful consideration to the Commission's Report and considered it necessary to modify the product-mix slightly and also the export conditions to safeguard the viability of existing manufacturers. In order to comply with the provisions of Section 29 of the Act, a hearing was fixed and the applicant Company and the objectors/supporters who had disclosed their interest before the Commission as well as the Central Government were informed vide this Department letter No. 1/19/77-M (III) dated 20-10-1978 of the tentative decision subject to which the Central Government was inclined to consider approval of the proposal of the company for the manufacture of the following plant, machinery and equipment for the processing of tobacco and for the manufacture of tobacco products upto a value of Rs. 240 lakhs per annum.
 - (1) Vertical/Horizontal threshing plants (threshers and classifiers only):—
 - (i) For G. L. Threshing.
 - (ii) For Cigarette Factories.
 - (iii) For Cigarillo Plants.
 - (2) Machines for making cigarettes and similar products
 - (i) For Cigarettes
 - (ii) For Cigarillos
 - (3) Packaging machines and allied equipment.
 - (4) Cellophane Wraping machines for cello-wrapping of Cigarettos and Cigarillos.
 - (5) Band tobacco plants (small and large).
 - (6) Machinery for filtered tips.

subject to the following conditions:-

(i) The company will reduce its foreign equity to 40% as required by FERA and as undertaken by it.

- (ii) The company will get a clearance of the proposed foreign collaboration agreement and proposed import of capital goods from appropriate Government authorities in the light of modified product-mix.
- (iii) The company will take appropriate steps as advised by the Government in respect of licences issued to it which it has not effectively worked till now.
- (iv) The entire project cost of Rs. 88.50 lakhs will be met by the company out of its own internal resources.
- (v) The company shall export 20% of the production of all machinery execuding machines for making cigarettes for a period of 10 years from the commencement of production. This condition can be relaxed by the Government at their option for the first five years only providing that in case of any shortfall (wholly or partially) in the export of such machinery (except for machines for making cigarettes), the company would export 1½ times in terms of value or quantity to the extent of such shortfall (whichever is more valuable) other machineries manufactured by the company. In the case of machineries for making cigarettes, the company shall undertake an export obligation of 60% for a period of ten years and the relaxation for exporting 1½ times of other machinery in lieu of such machines for making cigarettes will not be available. In order to ensure that the company undertake an export obligation of at least Rs. 165 lakhs worth of machiner including Rs. 50 lakhs worth of cigarette making machinery/tobacco processing machinery or 1½ times of shortfall in lieu of this machinery, as already undertaken by it, the foreign exchange earnings by the company from export of various machineries during the first five years would not, in any case, be less than Rs. 165 lakhs including Rs. 50 lakhs worth of cigarette making machinery/tobacco processing machinery or 1½ times of shortfall in respect of this machinery.
- 7. The applicant Company in its letter No. SEC/TVR/T-8/78 dated 18-12-78 informed the Government that in view of the terms set out in this Department letter dated 20-10-1978, especially those concerning exports, it had become necessary for the company to review and reassess the project in consultation with its Collaborators. After reassessment it has regretfully come to the conclusion that the implementation of this manufacturing scheme in the manner suggested by this Department will not be an economic and viable proposition for the company. The company stated that it was therefore, constrained to withdraw the project since, at this juncture it is unworkable. It further stated that as a matter of policy it will review the project continually and revert to Government at an appropriate future date. As such it did not consider necessary to depute any representative to attend the hearings.
- 8. The submissions made by the applicant Company as indicated in para 7 above implied non-acceptance of the proposed conditions subject to which the Government was inclined to consider approval of the proposal of the company. In view of this the Government has felt that the applicant Company is no longer interested in implementing its proposal subject to conditions proposed Government and that the proposal of the Company should be rejected.
- 9. Taking into consideration the relevant facts and circumstances of the case the Central Government is satisfied that it is not expedient in the public interest to accord approval to the proposal of the applicant company made under the Act and that the same should be rejected.

ORDER

In exercise of its powers conferred on it under Section 21 (3) (c) of the Monepolies & Restrictive Trade Practices Act, 1969, the Central Government hereby rejects the proposal of M/s. Vulcan Laval Lad. as contained in its Notice dated 4-8-77 under Section 21 of the said Act.

(Sd/-)

M. K. KUKREJA

Joint Segretary to the Government of India

Maio Danie the 17th January, 1979

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SI.	No.	Name of the Company		Date of Reference to the M.R.T.P. Commission	Date of Receipt of M.R.T.P. Commission's Report	Date of Passing The Final Orders By Contral Government
l.	Alta I	Laboratories Pvt. Ltd		10-12-76	29- 4 -77	Approved on 2-5-78
2.	Atul l	Products Ltd		2-11-73	27-6-74	Approved on 31-10-75
3.	Autor	nobile Products of India Ltd.		30-7-71	17-1-72	Approved on 18-11-72
4.	Bajaj	Auto Ltd		30-7-71	12-1-72	Approved on 30-11-72
5.	Carbo	orandum Universal Ltd.		12-2-71	12-5-71	Approved on 1-10-71
6.	Cent	ary Spg. & Mfg. Co. Ltd		12-2-71	12-5-71	Approved on 1-6-72
7.	Delhi	Cloth and General Mills Co.	. Ltd.	2 4-8-7 1 ।व जयन	18/21 -4- 72	Approved on 8-3-73
8.	Duple	op India Ltd	•	26-8-71	18-4-72	Approved on 8-1-73
9.	Gabri	iel India Ltd		20-8-73	15 -2-74	Approved on 27-11-76.
10.	Gwal	ior Rayon Silk Mfg. (Wvg.)	Co Ltd.	8-10-71	10-7-79	Rejected on 3-5-74
11.	Hind	ustan Aluminium Corporatio	n Ltd.	17-7-71	17-2-72	Exemption Gran ted on 31-7-73
12.	India	Pistons Ltd		28-4-7 3	20-3-74	Approved on 21-6-75

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1,	Lucas TVS Ltd.	29-7-71	25-5-73	Approved on 28-3-74
1, 2.	Mettur Chemicals & Industries Corporation Ltd.	2-3-71	30-6-71	Approved on 27-9-71
3.	Meesha & Company.	1 -2-7 1	18-3-71	Rejected on 14-9-71
4.	Philips India Ltd.	17-7-74	2-4-75	Rejected on 5-5-76
5.	Systronics	2 3-6-72	30-11-72	Approved on 20-7-73
6.	Tata Engineering & Locomotive Co. Ltd.	16-6-71	11-12-71	Approved on 30-6-72
7.	Telerad Pvt. Ltd.	8-12-72	7-5-73	Approved on 21-2-74
8.	Vidyut Mettallics Ltd.	1-10-71	1/14-3-72	Rejected on 16-7-73
9.	Vulcan Laval Ltd.	1 5- 2 -7 8	20-6-78	Rejected on 17-1-79

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1.	Anil Starch Products Ltd.		•	18-9-73	25-3-74	Rejected on 9-1-76
2.	Ballarpur Paper & Straw Boa	rd Mills L	td.	7-3-75	30-6-75	Approved on 28-2-76
3.	Birla Jute Mfg. Co. Ltd.		•	20 -1-73	1-10-73	Approved on 3-5-74
4.	Chowgule & Co. Pvt. Ltd.		•	29-10-75	9-3-76	Approved on 19-11-76.
5.	Chowgule & Co. Pvt. Ltd.		•	6 -4 -76	31-7-76	Approved on 27-5-77
6.	Hindustan Aluminium Corpo	ration Ltd	l.	1-10-71	30-8-73	Rejected on 11-2-74
7.	Hindustan Lever Ltd.	•	•	15-3-73	20-9-73	Approved on 6-3-74
8.	Indian Explosives Ltd.		•	18-10-75	31-7-76	Rejected on 28-2-77
9.	Kamani Tube Pvt. Ltd.	• •	•:	21-7-72	17-11-72	Rejected on 28-2-74

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1.	Kesoram Industries & Cotton Mills Ltd	29-1-71	23-6-73	Approved on 21-3-74
2.	Maharaja Shree Umaid Mills Ltd.	6-4-76	31-7-76	Rejected on 28-2-77
3.	Philips India Ltd.	8-4-74	1-11-74	Rejected on 5-7-75
4.	Rallis India Ltd.	4-6-74	24-12-74	Approved on 9-2-76
5.	Shri Ambica Mills Ltd.	22-1 2-7 5	31-7-76	Approved on 10-10-77
6.	T.V. Sundaram Iyengar & Sons Pvt. Ltd.	26-7-71	16-12-71	Approved on 2-12-72
7.	Wimco Ltd	6-4-76	31-7-76	Rejected on 28-2-77

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1.	Karam Chand Thapar & Bros. (Coal Sales) Ltd.	5-12-72	16-4-73	Approved on 30-7-73
2.	Larsen & Toubro Ltd	. 15-4-71	13-7-71	Approved on 3-9-71
3.	Larsen & Toubro Ltd	. 25-5-72	23-8-72	Approved on 11-10-72
4.	Macneill & Barry Ltd.	. 22-3-72	1-8-72	Approved on 9-2-73
5.	Madhya Pradesh Industries Ltd. & Benga And Assam Investors Ltd.	al 15-4-71	18-8-71	Rejected on 5-11-71
6.	Sarabhai M. Chemical Pvt. Ltd	. 10-11-72	7-2-73	Company With drew Its appli- cation On 30-3-73.